

RADICA GAMES LTD

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6-K

SIC 5090 NMS SEC # 0-23696

FOR 06/01/94

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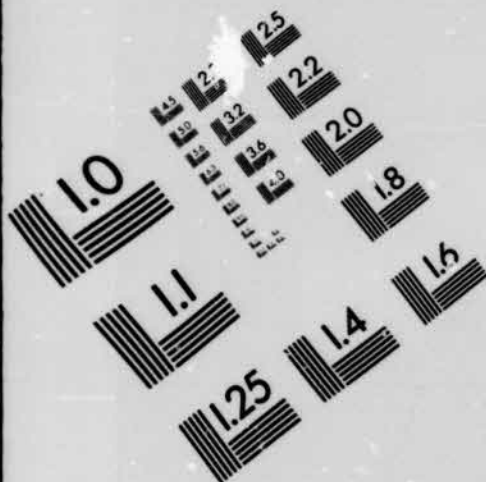
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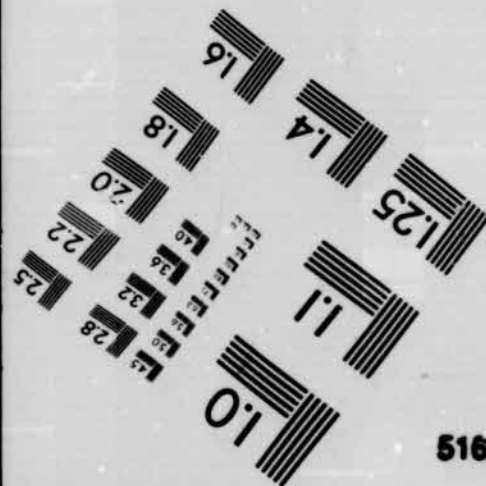
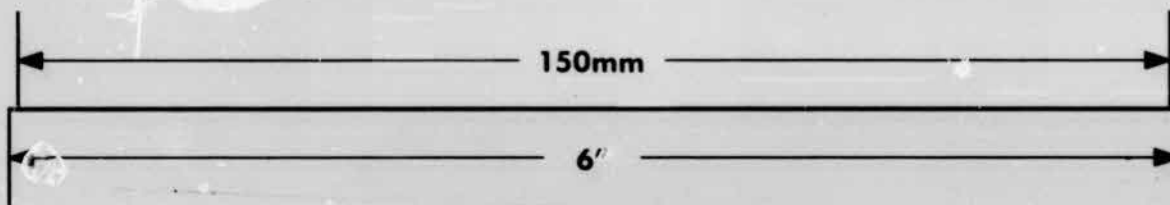
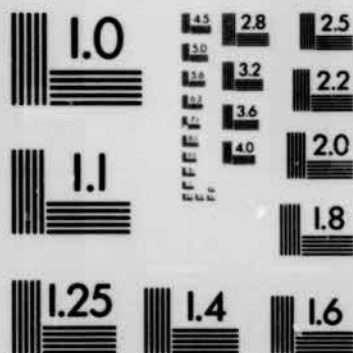
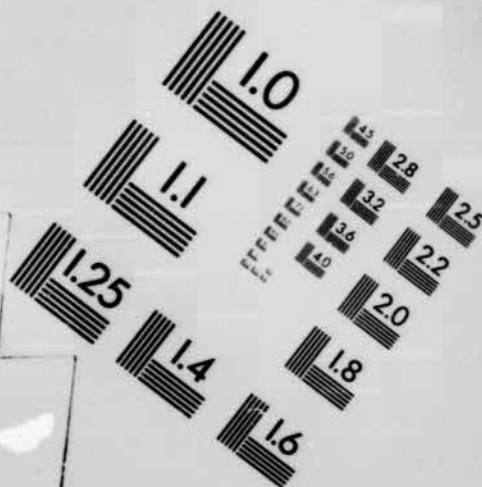
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IMAGE EVALUATION
TEST TARGET (MT-3)



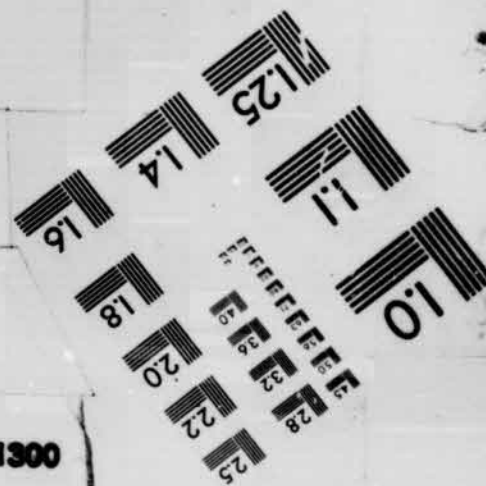
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FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549



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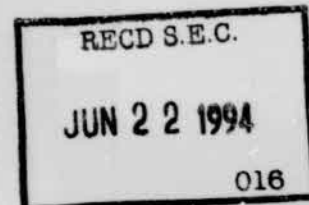
Report of Foreign Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

P.F.
6-1-94
For the month of June 1994

PROCESSED BY
24-24-I
JUN 23 1994

DISCLOSURE INC.

L6Q



RADICA GAMES LIMITED
(Translation of registrant's name into English)

Suite R, 6/F, 2-12 Au Pui Wan Street, Fo Tan, Hong Kong
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or 40-F

Form 20-F X

Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes

No X

If "yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

Contents:

1. Press Release dated June 3, 1994
2. Quarterly Report

RADICA GAMES LIMITED
(NASDAQ-SYMBOL RADAF)

RADICA GAMES LIMITED
REPORTS 178% SALES GAIN AND 158% INCREASE IN NET INCOME
FOR THE SECOND QUARTER ENDED APRIL 30, 1994

FOR IMMEDIATE RELEASE
June 3, 1994

CONTACT: JON N. BENGTSON
(702) 829-8643

Radica Games Limited reported today net sales growth of 178% and pro forma net income gains of 158% for the second quarter ended April 30, 1994 over the comparable period in 1993. Net sales for the second quarter 1994 were \$11,324,000 compared to \$4,069,000 for the second quarter of 1993. Pro forma net income for the quarter was \$2,353,000 or \$0.12 per share, compared to \$912,000 or \$0.05 per share in the second quarter of 1993.

For the six months ended April 30, 1994 net sales increased 333% to \$23,681,000 from \$5,466,000 for the same period last year. Pro forma net income for the six months was \$5,788,000 or \$0.29 per share compared to \$762,000 or \$0.04 per share for the same period in 1993, a six fold increase in net income.

The second quarter improvement in net sales is due to an increase in the number of retailers selling the company's products, an increase in the number of

models carried by retailers and a growing number of retailers carrying the company's products year round as opposed to just during traditional gift giving seasons.

New product introductions have contributed significantly to the increase in sales in the second quarter. The product groups introduced were the new model 400 series, smaller hand held games priced at the low end of the market, and the Wild-Deuces model introduced throughout the company's product line. Over 600,000 units of these new products were sold in the second quarter accounting for approximately \$3,700,000 of the increase in net sales.

As anticipated, net sales in the second quarter of 1994 were approximately \$1,000,000 lower than those of the first quarter of 1994 due primarily to a substantial amount of Christmas orders shipped in the November and December months of the first quarter. In previous years Christmas orders had been shipped by the end of October, the company's year end.

Gross profit for the second quarter 1994 was \$5,803,000 as compared to \$2,111,000 for the second quarter of 1993, an increase of \$3,692,000 or 175%. The gross margin for the second quarter 1994 of 51.3% was slightly lower than the 51.9% for the same quarter in 1993. This small decline is due primarily to the introduction of the new lower priced hand held models which have a slightly lower gross margin

Operating income for the quarter was \$2,892,000 versus \$1,021,000 for the same period last year, an increase of 183%. The operating margin for the quarter was 25.5%, a slight increase over the 25.1% margin for the second quarter of 1993.

Operating expenses increased 167% over the second quarter 1993 to \$2,911,000 and increased \$326,000 or 12.6% over those of the first quarter 1994, due primarily to the opening of new sales and distribution facilities in Reno and Las Vegas and to overall staff increases. In addition, research and development costs increased 303% from the second quarter of 1993 to \$351,000 and increased 24% from the first quarter 1994, due to engineering staff increases in both Hong Kong and the United States.

Bob Davids, President and CEO, said "We are progressing well in all areas. In the third quarter there will be many new product releases including the new keychain models that have begun to ship in May. Nine new table top models will begin to ship in the third quarter including new improved versions of the model 200, 600 and 1500 games as well as the new Riverboat model 800 games". Davids said he was very pleased with President Clintons recommendation to continue China's most favored nation status. "The second quarter met our expectations and we are optimistic that 1994 will be a very successful year.", Davids said.

Davids said the company's second manufacturing facility, a new 80,000 square foot factory which will double current factory space, is on schedule to begin production the third week in June with 600 employees. This factory is located near the current factory in southern China. The third factory facility with 700,000 square feet is currently under construction with a scheduled May 1995 opening date. This third factory will replace the two existing facilities. With the

opening of the third factory the company's total manufacturing facilities will be approximately four times that in existence at the end of 1994. These facilities will accomodate expansion of the company's existing product line, Pub Poker and the manufacturing requirements under the IGT manufacturing agreement.

-END-

QUARTERLY REPORT*

For the quarterly period ending April 30, 1994

Commission File Number 0-23896

RADICA GAMES LIMITED
(Exact name of registrant as specified in charter)

Bermuda
(Country of Incorporation)

N/A
(I.R.S. Employer Identification Number)

Suite R, 6/F, 2-12 Au Pui Wan Street, Fo-Tan, Hong Kong
(Address of principal offices)

Registrant's telephone number including area code: (852) 693-2238

Indicate by check mark whether the registrant (1) filed all reports to be filed by Section 13 or 15(b) of the Securities Exchange Act of 1934 during the proceeding 12 months (or for such shorter period that the registrant was required to file such report), and (2) has been subject to such filing requirement for the past 90 days. Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Outstanding at 10th June 1994</u>
Common Stock, par value \$0.01 per share	22,780,000

* As a foreign private issuer, the registrant is not required to file reports on Form 10-Q. It intends to make voluntary quarterly reports to its stockholders which generally follow the Form 10-Q format. Such reports, of which this is one, are furnished to the Commission pursuant to Form 6-K.

RADICA GAMES LIMITED AND RADICA ENTERPRISES LTD
COMBINED STATEMENTS OF INCOME (unaudited)

(In thousands , except per share amounts)	THREE MONTHS ENDED		SIX MONTHS ENDED	
	April 30,		APRIL 30,	
	1994	1993	1994	1993
	\$	\$	\$	\$
REVENUES:				
Net Sales				
Net sales to related parties	1	769	2,601	1,049
Net sales to others	11,323	3,300	21,080	4,417
	<u>11,324</u>	<u>4,069</u>	<u>23,681</u>	<u>5,466</u>
Cost of sales	5,521	1,958	11,183	2,675
Gross profit	<u>5,803</u>	<u>2,111</u>	<u>12,498</u>	<u>2,791</u>
 OPERATING EXPENSES:				
Selling, general and administrative expenses	2,560	1,003	4,862	1,755
Research and development	351	87	634	143
Total operating expenses	<u>2,911</u>	<u>1,090</u>	<u>5,496</u>	<u>1,898</u>
 OPERATING INCOME	2,892	1,021	7,002	893
 NET INTEREST EXPENSE	5	28	18	46
 INCOME BEFORE INCOME TAXES	2,867	993	6,984	847
 PROVISION FOR INCOME TAXES	192	67	514	67
 NET INCOME	2,695	926	6,470	780
 PRO FORMA:				
Historical income before income taxes	2,887	993	6,984	847
Pro forma income taxes	534	81	1,196	85
Pro forma net income	2,353	912	5,788	762
Pro forma net income per share	0.12	0.05	0.29	0.04
Pro forma average number of shares outstanding	20,260	19,808	20,260	19,658

The accompanying notes are an integral part of these consolidated financial statements.

**RADICA GAMES LIMITED AND RADICA ENTERPRISES LIMITED
COMBINED BALANCE SHEETS**

ASSETS

(Dollars in thousands)

	<u>APRIL 30,</u> <u>1994</u> (Unaudited) \$	<u>OCTOBER 31,</u> <u>1993</u> \$
CURRENT ASSETS:		
Cash and cash equivalents	6,509	4,698
Accounts receivable, net of allowances for doubtful accounts of \$25 and \$5 in 1994 and 1993	7,431	5,586
Inventories (Note 3)	9,867	6,459
Prepaid expenses and other current assets	307	158
Receivables from related parties (Note 4)		2,175
Deferred Income Taxes (Note 6)	75	42
Total current assets	24,189	19,118
PROPERTY, PLANT AND EQUIPMENT, net (Note 5)	2,985	2,582
OTHER ASSETS	210	126
Total Assets	27,384	21,826

The accompanying notes are an integral part of these consolidated financial statements.

**RADICA GAMES AND RADICA ENTERPRISES LIMITED
COMBINED BALANCE SHEETS**

LIABILITIES AND STOCKHOLDERS EQUITY

(Dollars in thousands)

	APRIL 30, 1994	OCTOBER 31, 1993
	\$	\$
CURRENT LIABILITIES:		
Short term borrowings	4,697	2,743
Current portion of long term debt (Note 7)	67	76
Accounts Payable	3,217	3,666
Payable to related party (Note 4)	69	-
Accrued payroll and employee benefits	89	144
Other accrued expenses	1,206	757
Income taxes payable	1,126	1,020
Distribution payable to shareholders (Note 9)	-	3,025
	<u>10,471</u>	<u>11,431</u>
Total current liabilities		
LONG TERM DEBT (Note 7)	2	30
STOCKHOLDERS' EQUITY		
Common stock (Note 8)	20	20
Additional paid-in capital	233	157
Retained earnings	16,637	10,167
Cumulative translation adjustment	21	21
	<u>16,911</u>	<u>10,365</u>
Total stockholders' equity		
Total liabilities and stockholders' equity	<u>27,384</u>	<u>21,826</u>

The accompanying note are an intergal part of these consolidated financial statements.

**RADICA GAMES LIMITED AND RADICA ENTERPRISES LIMITED
COMBINED STATEMENTS OF CASH FLOWS**

(Dollars in thousands)

	SIX MONTHS ENDED APRIL 30,	
	1994	1993
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	6,470	780
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	(33)	4
Depreciation and amortization	269	156
Loss on sale of assets	-	43
Provision for compensation expenses in relation to stock option	76	-
(Increase) decrease in assets:		
Receivables	(1,845)	(381)
Receivables from related parties	2,175	(278)
Inventories	(3,408)	(735)
Prepaid expenses and other current assets	(149)	32
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	(449)	631
Payables to related parties	69	-
Accrued and deferred income taxes payable	106	(127)
Accrued payroll and employee benefits	(55)	(1)
Other accrued expenses	449	(55)
Total adjustments	(2,795)	(711)
Net cash provided by operating activities	3,675	69
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in property, plant and equipment	(646)	(405)
Investment in other assets	(110)	-
Proceeds from the sale of property, plant and equipment	-	25
Net cash used in investing activities	(756)	(380)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issue of new shares	-	144
Net repayment of long term debt	(37)	(32)
Payment of cash dividend	(3,025)	(39)
Increase in short term borrowings	1,954	1,418
Net cash provided by financing activities	(1,108)	1,491

(continued)

RADICA GAMES LIMITED AND RADICA ENTERPRISES LIMITED
COMBINED STATEMENTS OF CASH FLOWS
(Continued from the previous page))

(Dollars in thousands)

	SIX MONTHS ENDED APRIL 30,	
	1994	1993
	\$	\$
Net cash provided by financing activities	(1,108)	1,491
Effect of changes in exchange rates	-	14
NET (INCREASE) DECREASE IN CASH AND CASH EQUIVALENTS	1,811	1,194
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	4,698	1,084
CASH AND CASH EQUIVALENTS AT END OF PERIOD	6,509	2,278
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION:		
Interest	18	46
Income taxes	344	192

The accompanying notes are an integral part of these consolidated financial statements.

RADICA GAMES LIMITED AND RADICA ENTERPRISES, LTD.
NOTES TO COMBINED FINANCIAL STATEMENTS
For the Year Ended October 31, 1993 and April 30, 1994
(dollars in thousands)

REORGANIZATION AND BASIS OF PRESENTATION

The accompanying combined financial statements have been prepared for inclusion in a report on Form 6-K (however, it generally complies with the Form 10-Q format) to be furnished to the Securities and Exchange Commission by Radica Games Limited ("Radica Games"), and include the accounts of Radica Games, its subsidiaries, and Radica Enterprises, Ltd. ("Radica USA") which hereinafter are collectively referred to as the "Company".

On December 21, 1993, Radica Games, a newly formed Bermuda company, became the holding company of Radica Limited ("Radica HK"), a company incorporated in Hong Kong, through an exchange of common stock of Radica Games for all the common shares of Radica HK. Accordingly, the Company's financial statements include the financial position, results of operations and cash flows of Radica HK as if Radica Games had been the holding company of Radica HK for all the periods presented. Prior to the closing of the Company's initial public offering on May 20, 1994, Radica Games acquired all the outstanding common stock of Radica USA, a company incorporated in Nevada, in exchange for shares of Radica Games.

Because Radica Games and Radica USA are under common control and Radica HK and Radica USA have been under common control since the formation of Radica USA in April 1992, the financial statements have been prepared to reflect the combined financial position, results of operations and cash flows of Radica Games and Radica USA for all the periods presented at historical cost as if the structure of the Company resulting from the above transactions had been in existence since the formation of Radica USA in a manner similar to the pooling-of-interests methods.

All significant inter-group transactions and balances have been eliminated on combination.

Historical combined earnings per share has not been presented as such information is not meaningful.

On the exchange of its shares with those of Radica Games, Radica USA lost its S Corporation status. The accompanying historical financial statements do not reflect the termination of Radica USA's S Corporation status.

The accompanying combined financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America and are presented in US dollars as the Company's sales are predominantly denominated in US dollars.

RADICA GAMES LIMITED AND RADICA ENTERPRISES, LTD.
NOTES TO COMBINED FINANCIAL STATEMENTS (Cont.'d)
(Dollars in thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents – Cash and cash equivalents include cash on hand, cash accounts, interest-bearing savings accounts, and time certificates of deposit with an original maturity of three months or less.

Inventories – Inventories are stated at the lower of cost, determined by the weighted average method, or market.

Depreciation and amortization of property and equipment – Depreciation is provided on the straight line method at rates based upon the estimated useful lives of the property, generally five years, except for leasehold land and buildings which are 50 years, the term of the lease. Costs of leasehold improvements are amortized over the life of the related asset or the term of the lease, whichever is shorter.

Revenue Recognition – Revenues are recognized as sales when merchandise is shipped. The Company permits the return of damaged or defective products and accepts limited amounts of product returns in certain other instances. Accordingly, the Company provides allowances for the estimated amounts of these returns at the time of revenue recognition, based on historical experience adjusted for known trends.

Income Taxes – In 1993, the Company adopted Statement of Financial Accounting Standard No. 109, "Accounting for Income Taxes" (SFAS 109). The Company elected to apply the provisions of SFAS No. 109 retroactive to November 1, 1990. The effect of adopting SFAS No. 109 at November 1, 1990 was not material, nor was it material to either 1991 or 1992 or 1993 earnings. SFAS No. 109 changes the method of accounting for income taxes from the deferred to the liability method. Under the liability method, deferred income taxes are determined based upon enacted tax laws and rates applied to the differences between the financial statement and tax bases of assets and liabilities.

Foreign Currency Translation – Assets and liabilities of foreign operations are translated using period-end exchange rates. Revenues and expenses of foreign operations are translated using average monthly exchange rates. The impact of exchange rate changes is shown as "Cumulative Translation Adjustment" in shareholders equity. Net losses from foreign exchange transactions of \$129 and in 1993 \$167 in the six months to April 30th 1994 are included in selling, general and administrative expenses.

Post-retirement and post-employment benefits – The Company does not provide post-retirement or post-employment benefits to employees. Accordingly, the Company anticipates that Statement of Financial Accounting Standard No. 106, "Employers' Accounting for Post-retirement Benefits other than Pensions" and No. 112, "Employers' Accounting for Post-employment Benefits" will not have an impact on the Company's combined financial statements.

RADICA GAMES LIMITED AND RADICA ENTERPRISES, LTD.
NOTES TO COMBINED FINANCIAL STATEMENTS (Cont'd)
(Dollars in thousands)

Warranty – Future warranty costs are provided for based on the management estimated by reference to the current year sales and past years' warranty costs incurred, adjusted for known trends.

3. INVENTORIES

Inventories by major categories are summarized as follows:

	<u>October 31, 1993</u>	<u>April 30, 1994</u> (unaudited)
Raw materials	3,431	4,638
Work in progress	470	602
Finished goods	<u>2,558</u>	<u>4,627</u>
	<u>\$6,459</u>	<u>9,867</u>

4. RELATED PARTY TRANSACTIONS

The Company has also entered into an agreement with Disc, Inc. ("Disc") in which Disc agreed to provide design services to the company. Such fees are equal to the expenditures incurred by Disc plus 4%. The Company advanced Disc funds for such expenditures. Prior to May 20, 1994, Robert Davids, President of the Company, had a controlling interest in Disc. After such date, Disc is a subsidiary of the Company.

The following table summarizes the transactions between the Company and the related companies:

	<u>Year Ended October 31, 1993</u>	<u>Six Months Ended April 30, 1994</u> (unaudited)
John N. Hansen Company, Inc.		
Sales to	\$7,189	\$2,523
Interest/banking commit. fee pd.	\$ 70	-0-
Borrowings from	\$ 115	-0-
Repayment of a loan from	\$ 115	-0-
Rahn Sales Company, Inc.		
Sales to	\$ 266	\$ 78
Disc, Inc.		
Design fees paid	\$ 345	\$ 361

RADICA GAMES LIMITED AND RADICA ENTERPRISES, LTD.
NOTES TO COMBINED FINANCIAL STATEMENT (Cont'd)
(Dollars in thousands)

The following table summarizes the balance between the Company and the related companies:

	<u>October 31, 1993</u>	<u>April 31, 1994</u> (unaudited)
Receivable (Payable)		
John N. Hansen Company, Inc.	\$2,152	\$ -0-
Disc, Inc.	<u>23</u>	<u>(69)</u>
	\$2,175	\$(69)

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>October 31, 1993</u>	<u>April 30, 1994</u> (unaudited)
Land and Buildings	\$ 1,202	\$1,202
Plant and Machinery	1,522	1,764
Furniture and Equipment	527	878
Leasehold Improvements	<u>211</u>	<u>303</u>
Total	3,462	\$4,147
Less: Accumulated depreciation and amortization		
Total	(800)	(1,078)
	\$2,582	\$3,069

Additions, disposals and depreciation and amortization of property and equipment for the period ended October 31, 1993 are as follows:

	<u>Year Ended October 31, 1993</u>	<u>Six Months Ended April 30, 1994</u> (unaudited)
Additions	\$1,192	\$646
Disposals-net book value	\$ 98	-0-
Depreciation and amortization	\$ 325	\$243

Included in property of capital lease assets, which is included in depreciation and amortization expense in the accompanying statements of income, was \$27 for the year ended October 31, 1993 and \$49 for the six month ended April 30, 1994.

RADICA GAMES LIMITED AND RADICA ENTERPRISES, LTD.
NOTES TO COMBINED FINANCIAL STATEMENT (Cont.'d)
(Dollars in thousands)

6. INCOME TAXES

The components of income before taxes are as follows:

	Year Ended October 31, <u>1993</u>	Six Months Ended April 30, <u>1994</u> (unaudited)
Hong Kong	\$9,355	\$4,976
United States	<u>1,582</u>	<u>2,008</u>
	<u>\$10,937</u>	<u>\$6,984</u>

Radica HK is subject to Hong Kong taxation on its activities conducted in Hong Kong.

In accordance with the Hong Kong Inland Revenue Departmental Interpretation and Practice note No. 21, as Radica HK manufacturing operations are carried out in the People's Republic of China under a processing arrangement, in providing for Hong Kong income tax for the year, 50% of the income for the year has been apportioned as not subject to Hong Kong income tax. The calculation of the Hong Kong income tax has been based on such tax relief.

Prior to May 20, 1994, Radica USA elected to be treated as an S Corporation for US federal income tax purposes. An S Corporation is generally not subject to income tax at the corporate level. On May 20, 1994, (see Subsequent Events), Radica USA terminated its status as an S Corporation.

The provision for income taxes consists of the following:

	Year Ended October 31, <u>1993</u>	Six Months Ended April 30, <u>1994</u> (unaudited)
Hong Kong		
Current	\$908	\$450
Deferred	<u>(119)</u>	<u>(33)</u>
	\$789	\$417
United States		
State taxes on income	<u>71</u>	<u>97</u>
	<u>\$860</u>	<u>514</u>

RADICA GAMES LIMITED AND RADICA ENTERPRISES, LTD.
NOTES TO COMBINED FINANCIAL STATEMENT (Cont'd)
(Dollars in thousands)

A reconciliation between the provision for income taxes computed by applying the Hong Kong statutory tax rate to income before taxes and actual provision for income taxes is as follows:

	Year Ended October 31, <u>1993</u>	Six Months Ended April 30, <u>1994</u> (unaudited)
Provisions for income taxes at statutory rate on income for the period	17.5%	16.5%
Income not subject to taxation	(8.8)	(8.3)
Others	<u>(0.8)</u>	<u>(0.8)</u>
Effective Rates	7.9%	7.4%

Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities for income tax purposes compared with the respective amount for financial statement purposes. At October 31, 1993, deferred income taxes comprised:

	October 31, <u>1993</u>	April 30, <u>1994</u> (unaudited)
Deferred tax (assets) liabilities:		
Excess tax depreciation over financial reporting depreciation	\$ 70	\$ 70
Inter company Profit	(112)	(145)
Others	<u>-0-</u>	<u>-0-</u>
	\$ (42)	\$ (75)

RADICA GAMES LIMITED AND RADICA ENTERPRISES, LTD.
NOTES TO COMBINED FINANCIAL STATEMENT (Cont'd)
(Dollars in thousands)

7. LONG-TERM DEBT

	<u>October 31,</u> <u>1993</u>	<u>April 30,</u> <u>1994</u> (unaudited)
Long-Term debt consists of:		
Capital lease obligations, (interest at 13.79% to 15.34%)	\$106	\$ 69
Total	<u>\$106</u>	<u>\$ 69</u>
Current portion of long-term debt	<u>76</u>	<u>67</u>
Long-term debt, less current portion	\$ 30	\$ 2
Maturity of long-term debts as of April 30, 1994, are as follows:		
Period ending April 30,		
1994	\$ 74	\$ 67
1995	<u>30</u>	<u>2</u>
	\$106	\$ 69

8. COMMON STOCK

The capital structure of Radica Games and Radica USA in 1993 and as at 30 April 1994 is as follows (shares in thousands):

	<u>October 31,</u> <u>1993</u>	<u>April 30,</u> <u>1994</u> (unaudited)
<u>Radica Games:</u>		
Common Stock, \$1 par value	\$ 19	\$ 19
Authorized 20,000 shares; 18,752 (1993: 18752) shares outstanding		
<u>Radica USA:</u>		
Class A common stock, \$.10 par value	1	1
Authorized 100,000 shares; Issued outstanding 1.50 shares		
Class B common stock; \$.10 par value	-	-
Authorized 100,000 shares; none issued and outstanding		
	<u>\$ 20</u>	<u>\$ 20</u>

**RADICA GAMES LIMITED AND RADICA ENTERPRISES, LTD.
NOTES TO COMBINED FINANCIAL STATEMENT (Cont'd)
(Dollars in thousands)**

9. DISTRIBUTIONS PAYABLE TO SHAREHOLDERS

A dividend of \$3,025 was declared on October 26, 1993 by the board of directors of Radica HK payable to the then existing shareholders. The dividend was paid in November and December 1993.

10. SUBSEQUENT EVENT

On 13th May, 1994, Radica Games Ltd. common stock began trading in its initial public offering on the NASDAQ National Market System. The Company offered 2,780,000 shares (total offered by the Company and selling shareholders was 7,141,000 shares) and raised \$28,534. Common stock outstanding after the offering was 22,780,000 shares.

On 20th May, 1994, Radica Games acquired all of the common stock of Disc and Radica USA.

Radica USA terminated its S Corporation status and distributed all of its S Corporation earnings in the amount of \$3,892 on 20th May, 1994.

During May 1994, the company purchased an industrial warehouse unit in Fo Tan, Hong Kong for approximately \$1,200 and committed to purchase a future unit for approximately \$300 for office space.

Item 2. Management's Discussion and analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the attached condensed financial statements and notes thereto, and with the audited financial statements, accounting policies and notes included in the company's prospectus dated May 13, 1994 as filed with the United States Securities and Exchange Commission.

RESULTS OF OPERATIONS -- THREE MONTHS ENDED APRIL 30, 1994 COMPARED TO THE THREE MONTHS ENDED APRIL 30, 1993

Net sales for the three months ended April 1994 of \$11.3 million increased 178% from the \$4.1 million for the same quarter in 1993. Unit sales increased 177% during the second quarter 1994 over the second quarter 1993 and included more than 600,000 units of new products accounting for approximately \$3.7 million of the increase in net sales. New products included the introduction of a range of single player handheld games priced at the lower end of the market and the new Wild-Deuces models introduced throughout the product line. Sales of hand held games more than doubled in the second quarter 1994 and accounted for 96.7% of net sales, up from 90.7% in the second quarter of 1993. The second quarter increase in net sales is also due to an increase in the number of retailers selling the company's products, an increase in the number of models carried by the retailers and a growing number of retailers carrying the company's products year round as opposed to just during traditional gift giving seasons.

Net sales in the second quarter of 1994 were approximately \$1.0 lower than those of the first quarter of 1994 due primarily to a substantial amount of christmas orders shipped in the November and December months of the first quarter. In years past most Christmas orders had been shipped by the end of the fourth quarter.

Gross profit for the second quarter of 1994 was \$5.8 million as compared to \$2.1 million for the second quarter of 1993, an increase of \$3.7 million or 175%. The gross margin for the second quarter of 1994 of 51.3% was slightly lower than the 51.9% for the same quarter in 1993. This decline is due primarily to the introduction of the new lower priced hand held models which have a slightly lower gross margin.

Operating expenses for the second quarter of 1994 were \$2.9 million, up \$1.8 million or 167% over the same quarter in 1993. Operating expense increases were due primarily to increases in sales volumes and the opening of new sales and distribution facilities in Las Vegas and Reno. Compensation expenses increased \$0.3 million to \$0.8 million due to staff increases in the Hong Kong and the U.S.A. operations to handle increased sales volumes. Commissions paid to sales representatives increased to approximately \$680,000 from \$18,000 in the second quarter of 1993 due to the addition of the Radica U.S.A distribution operations and the subsequent use of manufacturers sales representatives.

Operating income for the second quarter of 1994 was \$2.9 million versus \$1.0 million for the same period last year, an increase of 183%. The operating margin for the quarter was 25.5%, a slight increase over the 25.1% margin for the second quarter of 1993.

RESULTS OF OPERATIONS -- THREE MONTHS ENDED APRIL 30, 1994 COMPARED TO THE THREE MONTHS ENDED APRIL 30, 1993 (CONTINUED)

The effective blended tax rate for the second quarter of 1994 was 18.5% compared to 8.2% for the same quarter in 1993. This is due to the substantial increase in profit contribution by the distribution operations of Radica U.S.A. which operates in a tax environment that has an effective federal tax rate of 34% as opposed to the 8.25% effective tax rate of the manufacturing operations in Hong Kong. During the second quarter of 1993 Radica U.S.A. made a relatively smaller profit contribution because it had just started operations.

Proforma net income for the second quarter of 1994 was \$2.4 million, up from \$0.9 million in the second quarter of 1993, an increase of 158%. The net income per common share in the second quarter of 1994 was \$0.12 as compared to \$0.05 for the second quarter of 1993.

CAPITAL RESOURCES AND LIQUIDITY

Cash and cash equivalents totaled \$6.5 million at April 30, 1994, up \$1.8 million from year-end 1993. Working capital at April 30, 1994 was \$13.7 million, a \$6.0 million increase from working capital of \$7.7 million at October 31, 1993. The increase in working capital is due primarily to the increases in net income over the same period. The ratio of current assets to current liabilities increased to 2.3 at April 30, 1994 from 1.7 at October 31, 1993. This increase in the current ratio is also due to the increases in net income over the same period.

Short term borrowings of \$4.7 million at April 30, 1994 were up \$2.0 million from \$2.7 million at October 31, 1994. This increase was due primarily to secure credit lines for the purchase of raw materials for the manufacturing operation to meet increasing sales demand.

The Company believes that its existing cash and cash equivalents and cash generated from operations are sufficient to satisfy its current anticipated working capital needs.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

NONE

Item 2. Changes in Securities.

NONE

Item 3. Defaults upon Senior Securities.

NONE

Item 4. Submission of Matters to a Vote of Security Holders.

NONE

Item 5. Other Information.

NONE

Item 6. Exhibits and Reports on Form - 8K.

(a) Exhibits:

NONE

(b) Reports on Form -8K:

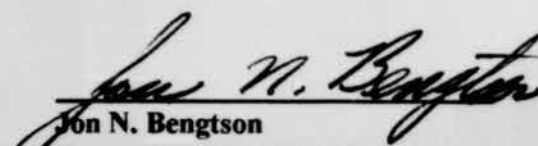
NONE

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RADICA GAMES LIMITED
(Registrant)

Date June 10, 1994


Jon N. Bengtson
Executive Vice President
Chief Financial Officer

FILMED

JUNE 1994

DISCLOSURE®

Information Services, Inc.

END

RADICA GAMES LTD

R 024106

6-K

SIC 5090

NMS

SEC # 0-23696

FOR 07/31/94

CARD 001

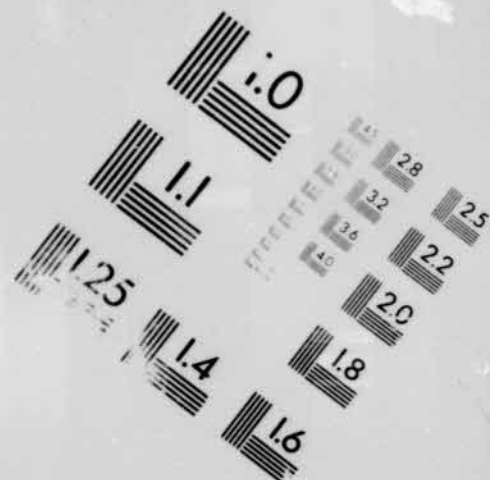
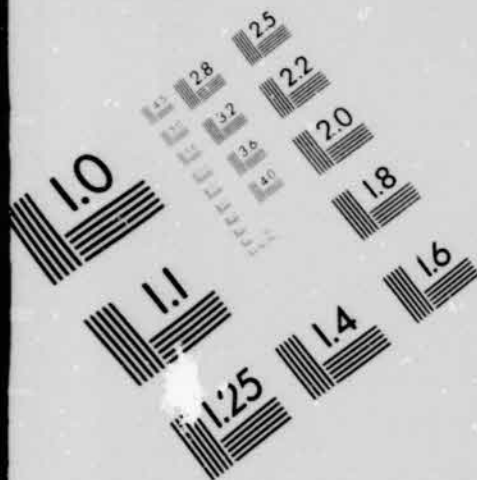
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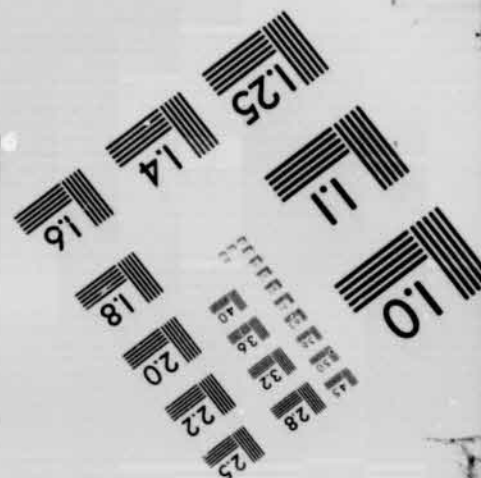
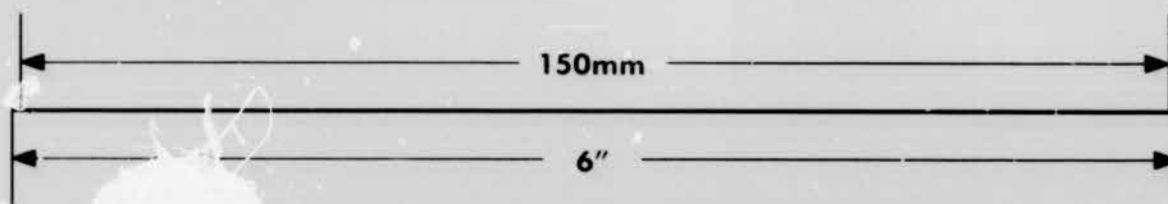
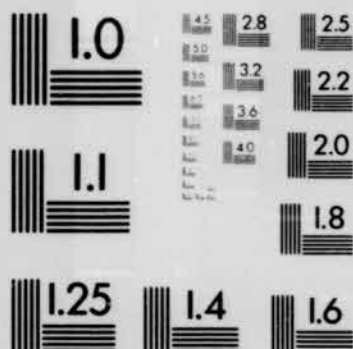
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IMAGE EVALUATION
TEST TARGET (MT-3)



DISCLOSURE
Information Services, Inc.



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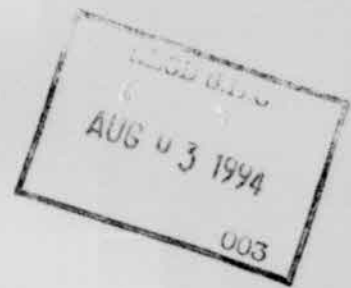
DISCLOSURE
Information services, Inc.
5161 River Road-Bethesda, MD 20816

PE
7-29-94



FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Report of Foreign Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934



For the month of July 1994

RADICA GAMES LIMITED
(Translation of registrant's name into English)

Suite R, 6/F, 2-12 Au Pui Wan Street, Fo Tan, Hong Kong
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or 40-F

Form 20-F X

Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes

No X

If "yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

Contents:

1. Press Release dated July 25, 1994
2. Additional Disclosures

PROCESSED BY
5-5-D
AUG 04 1994

DISCLOSURE INC
L6Q

RADICA GAMES LIMITED
(NASDAQ--SYMBOL RDAF)

**RADICA GAMES LIMITED
EXPECTS THIRD QUARTER SALES UP 45%
OVER LAST YEAR**

**FOR IMMEDIATE RELEASE
July 25, 1994**

**CONTACT: JON N. BENGTON
(214) 245-9169**

Radica Games Limited reported today that management expects sales to be approximately \$14 million for the third quarter ending July 31, 1994. While this represents an approximate 45% increase over the same quarter last year it is below company and analysts expectations. Bob Davids, President of Radica said sales and earnings for the third quarter are expected to be lower due primarily to shipments that have been delayed until the fourth quarter because of production problems. The company expects gross margins to be consistent with the second quarter ended April 1994.

Quality problems associated with the initial production of certain new game models as well as the accomodation of parts changes in certain older games, have delayed the completion of certain models needed for inclusion

-MORE-

in larger shipments. Davids indicated that the company has resolved the majority of the problems but the inability to ship two models of table top units had delayed anticipated shipments from the third quarter into the fourth quarter. Davids said that the company had not missed any customer shipment deadlines and had not had any order cancellations due to shipment delays.

"Sell-through at retail has been strong, particularly during our traditionally busy Father's day season. Customer orders for shipment in the fourth quarter are running approximately double our experience this time last year. With the delay of certain deliveries from the third quarter into the fourth quarter, we anticipate that some customer orders will similarly be delayed from the fourth quarter into the first quarter of 1995. However, we expect our fourth quarter results will be in line with the company's previous expectations", Davids said.

-END-

Additional Disclosures

On July 26, 1994, a complaint was filed in the United States District Court, District of Nevada, against Radica Games Limited, three of its Directors: James J. Sutter, Robert E. Davids and John N. Hansen, and the managing underwriters of the Company's initial public offering: Merrill Lynch, Pierce, Fenner & Smith Incorporated and Montgomery Securities (Deborah Marcus v. Radica Games Limited, et al., CV-S-94-00653-PMP). The named plaintiff seeks to represent a class consisting of purchasers of the Company's common stock in such initial public offering or in the open market between May 13, and July 25, 1994. The plaintiff alleges various counts of securities fraud, relating to the Company's registration statement and other disclosures, under Section 11 and 12(2) of the Securities Act of 1933, and the common law of Nevada, and seeks unquantified monetary damages and other relief.

The Company has been informed that other lawsuits, making the same or similar allegations have also been filed, but the Company has not yet been served or received copies of these other complaints.

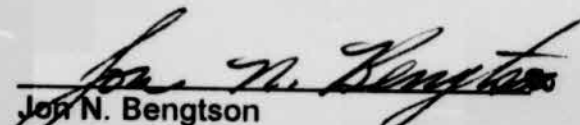
The Company believes the plaintiff's allegations are without merit and intends to defend these lawsuits vigorously.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RADICA GAMES LIMITED
(Registrant)

Date: August 1, 1994


Jon N. Bengtson
Executive Vice President
Chief Financial Officer

FILMED

AUGUST 1994

DISCLOSURE®
Information Services, Inc.

END

RADICA GAMES LTD

R 024106

6-K

SIC 5090

NMS

SEC # 0-23696

FOR 12/31/94

CARD 001

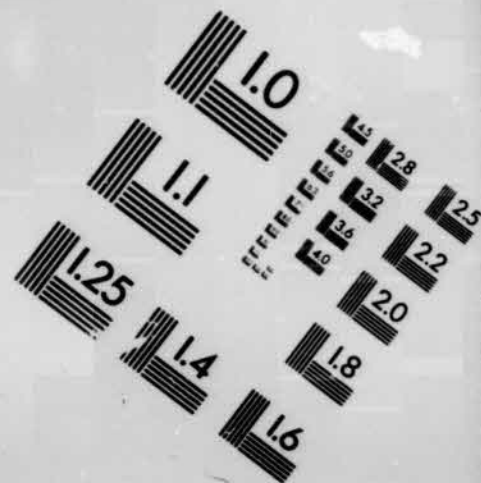
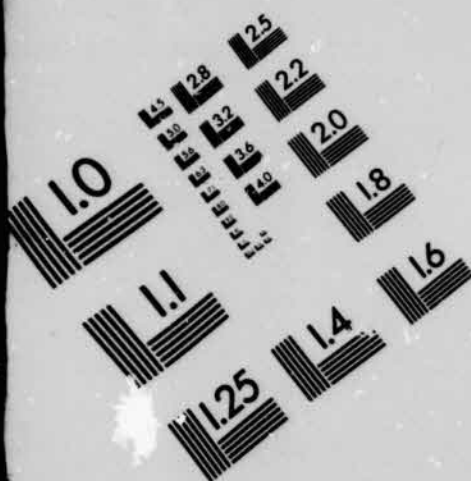
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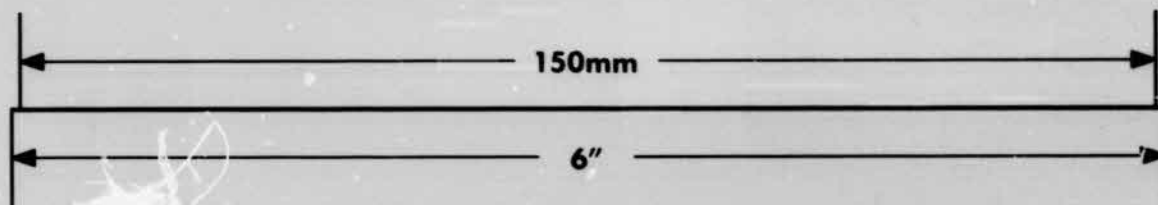
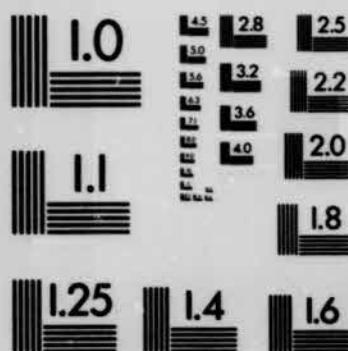
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IMAGE EVALUATION
TEST TARGET (MT-3)



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Information Services, Inc.



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5161 River Road-Bethesda, MD 20816



FE-12-31-94



SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-k

**Report of Foreign Issuer Pursuant to Rules 13a-16 and 15-d-16
Under the Securities Exchange Act of 1934**

For the month of December 1994

LLQ

PROCESSED BY
7-7T
FEB 02 1995



RADICA GAMES LIMITED
(Translation of Registrants name into English)

Suite R, 6/F, 2-12 Au Pui Wan Street, Fo Tan, Hong Kong
(Address of principal executive offices)

[Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or 40-F.]

Form 20-F ☒ Form 40-F ☐

[Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12 g3-2(b) under the Securities Exchange Act of 1934]

Yes ☐ No ☒

Contents:

1. Press release dated December 16, 1994

pg 1 of 6

**RADICA GAMES LIMITED REPORTS
79% INCREASE IN 1994 EARNINGS**

FOR IMMEDIATE RELEASE
December 16, 1994

CONTACT: JON N. BENGTON
(702) 829-8643

(Reno, Nevada) Radica Games Limited (NASDAQ RADAF) reported net income for fiscal year 1994 was \$17.2 million versus \$9.6 million in the prior year, an increase of 79%. For the same period earnings per share were \$.81 compared to \$.49 for fiscal 1993, an increase of 66%. Income from operations increased 73% to \$19.0 million compared to \$11.0 million in fiscal 1993. Total revenues in fiscal 1994 were \$72.1 million, increasing 122% over the \$32.5 million for the prior year.

For the quarter ended October 31, 1994, the company reported net income of \$8.2 million and \$.36 per share compared to \$5.9 million and \$.29 per share for the same quarter last year. Quarterly revenues reached \$33.7 million compared to \$17.5 million during the fourth quarter last year.

The improvement in net sales for the fourth quarter is due primarily to increases in the number of retail accounts that carry Radica's products, an increase in the number of models offered by retailers and a strengthened recognition of the casino game category. During the fourth quarter the company's products were sold in mass retailers, department stores, drug stores and were newly introduced during the fourth quarter in convenience and grocery stores. The company offered 54 table top and handheld models during the fourth quarter providing a large selection of products for retailers.

Gross profit for the 1994 fiscal year was \$34.2 million compared to \$16.4 million for fiscal 1993, an increase of 109%. The gross margin for the year was 47.5% compared to 50.5% for fiscal year 1993. The gross profit for the fourth quarter was \$13.9 million compared to \$9.1 million for the same quarter last year with a gross margin for the fourth quarter 1994 of 41.3% compared to 52.2% for the fourth quarter 1993. This decline is due

primarily to inefficiencies sustained in the substantial ramp up of production from 40,000 to 100,000 games per day. This was caused by the heavy volumes required to meet expected fourth quarter sales. To a lesser extent, the gross margin was impacted by the introduction of lower priced products that carry lower margins, primarily the key chain and 'video series' products. It is expected that the gross margin for the first quarter will improve over the gross margin for the fourth quarter, but will be below historic levels due to substantial inventory on hand at October 31, 1994 to meet sales demand through the Christmas season. This inventory was produced during the fourth quarter and carries a higher average cost. Production during the first quarter will be completed with very little use of sub-contractors and at production rates substantially below fourth quarter levels. These products manufactured in the first quarter should carry margins more in line with historic levels.

Operating income for the fiscal year 1994 increased to \$19.0 million from \$11.0 million for fiscal 1993, an increase of \$8.0 million or 73%. The operating margin for the year was 26.4% compared to 33.8% for the same period last year. Operating expenses increased 182% to \$15.3 million from \$5.4 million in 1993. These increases are primarily due to sales commissions incurred in 1994 as a result of Radica taking over distribution from third party distributors, increases in advertising and promotional expenses, additional salary and wage expenses and increases in research and development expenses. Sales commissions were 5.2% of sales, advertising and promotion costs were 2.9% of sales, salary and wages were 5.4% of sales and research and development expenses were 2.2% of sales.

Operating income for the fourth quarter increased 40% to \$9.4 million from \$6.8 million in the fourth quarter 1993. The operating margin in the fourth quarter 1994 was 28.0% compared to 38.7% in the fourth quarter 1993. Operating expenses increased 90.2% to \$4.5 million from \$2.4 million in 1993. These increases are primarily due to sales commissions incurred as a result of Radica taking over distribution from third party distributors, increases in advertising and promotional expenses, additional salary and wage expenses and increases in research and development expenses. Sales commissions were 5.1% of sales, advertising and promotion costs were 3.6% of sales, salary and wages were

3.5% of sales and research and development expenses were 1.1% of sales.

Bob Davids, President and CEO, said, "We are pleased with the increase in sales we have seen in our core distribution channels and are especially excited about entering the convenience and grocery store distribution channels. With the substantial increase in production, we have been able to ship virtually all orders on schedule without any material stockouts. Demand for the fourth quarter and the Christmas portion of the first quarter has been brisk," said Davids.

Davids said the Mexico manufacturing facility is currently producing all the small model 100 table top games for the company as well as two models of the 'video' series for sale into the Mexico market. The company has scheduled to move the production of all of its larger model 200 and model 600 table top games to the Mexico facility in early 1995 as well as two additional models of the 'video' series to be sold solely into Mexico. "The company has begun an aggressive marketing effort in the Mexican market for the products it manufactures there," Davids said.

Davids also announced the formation of Radica Canada, a wholly owned subsidiary of Radica USA Ltd., to provide exclusive distribution of the company's products in Canada. Davids said, "We believe that by taking control of our distribution in Canada we can better serve the market and substantially increase our Canadian sales".

Davids reported that the new 700,000 square foot China factory construction is on schedule to begin production in May of 1995. This new factory will replace the company's current two plants and will provide capacity to produce commercial gaming machines for IGT under the IGT manufacturing agreement. The new Pub Poker product is scheduled for placement in the market in early 1995.

"We are pleased with the strong market distribution we have achieved in 1994. Fiscal year 1995 will be another year of expansion with the opening of the China facility, further expansion of our core products and the introduction of the new Pub Poker line of business," said Davids.

-END-

RADICA GAMES LIMITED
CONSOLIDATED STATEMENT OF INCOME
(Unaudited)

(In thousands, except
per share amounts)

	THREE MONTHS ENDED OCTOBER 31, 1994		TWELVE MONTHS ENDED OCTOBER 31, 1994	
	1994	1993	1994	1993
	\$	\$	\$	\$
REVENUES:				
Net Sales:				
Net sales to related parties	-	4,214	2,335	7,455
Net sales to others	33,742	13,291	69,757	25,050
Total net sales	33,742	17,505	72,092	32,505
Cost of sales	19,804	8,372	37,823	16,085
Gross profit	13,938	9,133	34,269	16,420
 OPERATING EXPENSES:				
Selling, general administrative	4,115	2,246	13,677	4,766
Research and development	375	115	1,577	652
Total operating expense	4,490	2,361	15,254	5,418
 OPERATING INCOME	9,448	6,772	19,015	11,002
 NET INTEREST (EXPENSE)/INCOME	(39)	(2)	95	(65)
 INCOME BEFORE INCOME TAXES	9,409	6,770	19,110	10,937
 PROVISION FOR INCOME TAXES	1,172	(877)	1,950	1,374
 NET INCOME	8,237	5,893	17,160	9,563
 NET INCOME PER SHARE	0.36	0.29	0.81	0.49
 AVERAGE NUMBER OF SHARES OUTSTANDING	22,780	19,997	21,308	19,696

pg 5 of 6

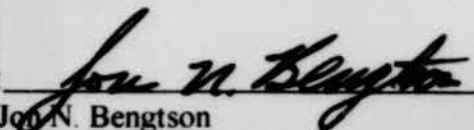
SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RADICA GAMES LIMITED

(Registrant)

Date: January 18, 1995

By: 

Jon N. Bengtson
Executive Vice President
Chief Financial Officer

FILMED

FEBRUARY 1995

DISCLOSURE®
Information Services, Inc.

END

RADICA GAMES LTD

R 024106

6-K

SIC 3944 NMS

SEC # 0-23696

FOR 03/01/95

CARD 001

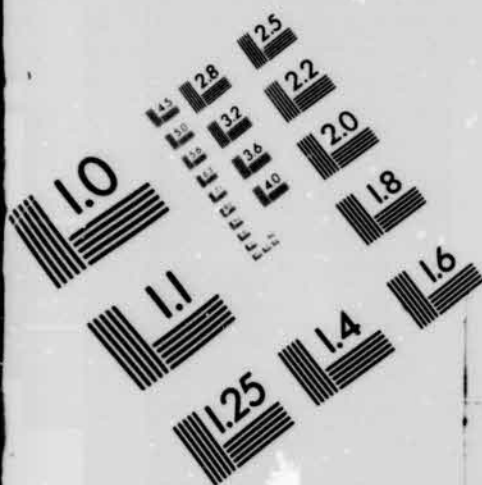
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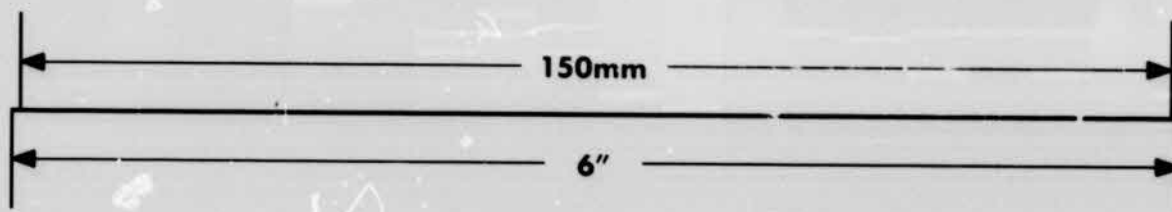
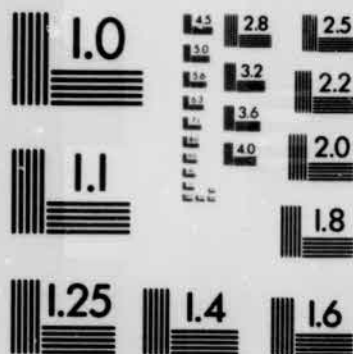
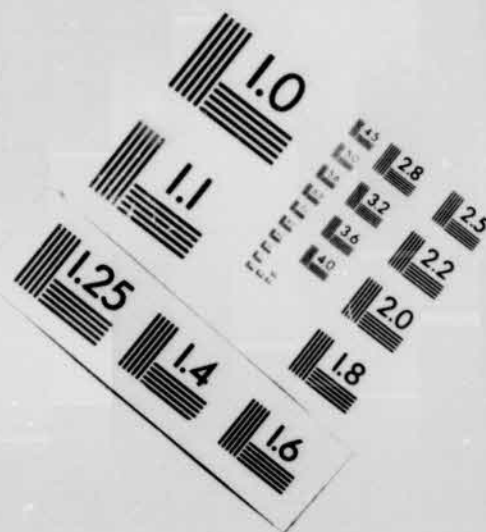
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IMAGE EVALUATION
TEST TARGET (MT-3)



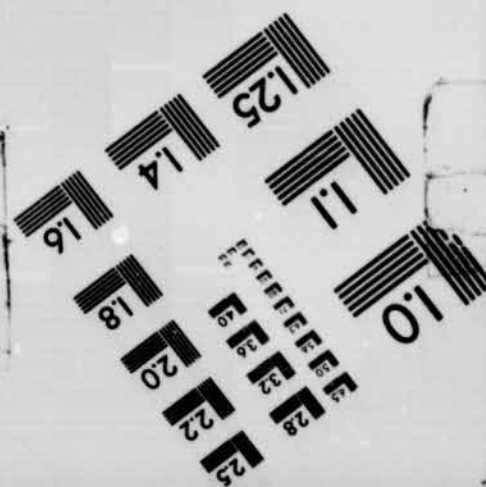
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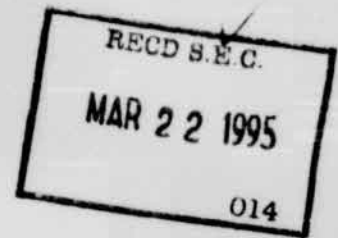
disclosure.

Information services, Inc.

5161 River Road-Bethesda, MD 20816



P.E. 3-1-95



FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of March, 1995

67-67 JR
PROCESSED BY
MAR 28 1995 262

RADICA GAMES LIMITED DISCLOSURE INC.
(Translation of registrant's name into English)

Suite R, 6/F., 2-12 Au Pui Wan Street, Fo Tan, Hong Kong
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of
Form 20-F or 40-F

Form 20-F ☒

Form 40-F ☐

Indicate by check mark whether the registrant by furnishing the information contained in this
Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under
the Securities Exchange Act of 1934.

Yes ☐

No ☒

If "yes" is marked, indicate below the file number assigned to the registrant in connection with
Rule 12g3-2(b): 82-_____

Contents:

1. Quarterly Report
2. Press Release dated March 6, 1995
3. Management Information Circular/Proxy Statement
4. Annual Report to Shareholders

QUARTERLY REPORT *

For the quarterly period ending January 31, 1995

Commission File Number 0-23696

RADICA GAMES LIMITED
(Exact name of registrant as specified in charter)

Bermuda
(Country of Incorporation)

N/A
(I.R.S. Employer Identification No.)

Suite R, 6/F., 2-12 Au Pui Wan Street, Fo Tan, Hong Kong
(Address of principal executive offices)

Registrant's telephone number, including area code: (852) 2693 2238

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Outstanding at 10th March 1995</u>
Common Stock, par value \$0.01 per share	22,780,000

* As a foreign private issuer, the registrant is not required to file reports on Form 10-Q. It intends to make voluntary quarterly reports which generally follow the Form 10-Q format. Such reports, of which this is one, are furnished to the Commission pursuant to Form 6-K.

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements

RADICA GAMES LIMITED

FORM 6-K

The accompanying consolidated financial statements have been prepared by the Company, without audit, and reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods. The statements have been prepared in accordance with the regulations of the Securities and Exchange Commission (the "SEC"), but omit certain information and footnote disclosures necessary to present the statements in accordance with generally accepted accounting principles in the United States of America.

These financial statements should be read in conjunction with the financial statements, accounting policies and notes included in the Company's Annual Report to Shareholders for the fiscal year ended October 31, 1994, and in the Company's Annual Report on Form 20-F for such fiscal year. Management believes that the disclosures are adequate to make the information presented herein not misleading.

RADICA GAMES LIMITED
CONSOLIDATED STATEMENTS OF INCOME

*(Dollars in thousands,
except per share data)*

	THREE MONTHS ENDED JAN. 31,	
	1995	1994
	(unaudited)	(unaudited)
	\$	\$
REVENUES:		
Net Sales:		
Net sales to unaffiliated customers	17,483	9,757
Net sales to related parties	-	2,600
<i>Total net sales</i>	17,483	12,357
Cost of sales	(9,714)	(5,662)
<i>Gross profit</i>	7,769	6,695
OPERATING EXPENSES:		
Selling, general and administrative expenses	(5,596)	(2,302)
Research and development	(524)	(283)
<i>Total operating expenses</i>	(6,120)	(2,585)
OPERATING INCOME	1,649	4,110
NET INTEREST EXPENSE	(205)	(13)
INCOME BEFORE INCOME TAXES	1,444	4,097
INCOME TAXES (Note 7)	(190)	(322)
NET INCOME	1,254	3,775
NET INCOME PER SHARE	0.06	0.19
AVERAGE NUMBER OF SHARES OUTSTANDING	22,780,000	20,260,000

See accompanying notes to consolidated financial statements.

**RADICA GAMES LIMITED
CONSOLIDATED BALANCE SHEETS**

ASSETS

(Dollars in thousands)

	JAN. 31, 1995 (unaudited) \$	OCT. 31, 1994 \$
CURRENT ASSETS:		
Cash and cash equivalents	11,151	11,038
Short-term investments (Note 3)	3,230	3,230
Accounts receivable, net of allowances for doubtful accounts of \$90 and \$96 in 1995 and 1994 and estimated customer returns of \$638 and \$138 in 1995 and 1994	14,245	25,977
Inventories (Note 4)	31,528	33,222
Prepaid expenses and other current assets	705	1,698
 <i>Total current assets</i>	 60,859	 75,165
 PROPERTY, PLANT AND EQUIPMENT, NET (Note 6)	 13,366	 11,731
 DEFERRED INCOME TAXES (Note 7)	 181	 188
 OTHER ASSETS	 230	 242
 <i>Total Assets</i>	 <u>74,636</u>	 <u>87,326</u>

See accompanying notes to consolidated financial statements.

**RADICA GAMES LIMITED
CONSOLIDATED BALANCE SHEETS**

LIABILITIES AND STOCKHOLDERS' EQUITY

(Dollars in thousands)

	JAN. 31, 1995 (unaudited) \$	OCT. 31, 1994 \$
CURRENT LIABILITIES:		
Short-term borrowings(Note 8)	12,445	15,473
Current portion of long-term debt(Note 9)	112	127
Accounts payable	2,654	10,401
Note payable(Note 10)	3,000	3,000
Accrued payroll and employee benefits	347	355
Accrued expenses	2,606	3,926
Income taxes payable	299	2,150
Total current liabilities	<u>21,463</u>	<u>35,432</u>
LONG-TERM DEBT (Note 9)	<u>49</u>	<u>73</u>
STOCKHOLDERS' EQUITY		
Common stock		
par value \$0.01 each, 100,000,000 shares authorised, 22,780,000 shares outstanding	228	228
Additional paid-in capital	28,179	28,129
Retained earnings	24,696	23,443
Cumulative translation adjustment	21	21
Total stockholders' equity	<u>53,124</u>	<u>51,821</u>
Total liabilities and stockholders' equity	<u><u>74,636</u></u>	<u><u>87,326</u></u>

See accompanying notes to consolidated financial statements.

RADICA GAMES LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	THREE MONTHS ENDED JAN. 31,	
	1995	1994
	(unaudited) \$	(unaudited) \$
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income	<u>1,254</u>	<u>3,775</u>
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	7	(2)
Depreciation and amortization	309	127
Provision for compensation expense related to stock options	50	-
Changes in assets and liabilities:		
Accounts Receivables	11,732	2,859
Inventories	1,693	(87)
Prepaid expenses and other current assets	993	(215)
Receivables from related parties	-	2,063
Accounts payable	(7,747)	(2,660)
Payables to related parties	-	25
Accrued payroll and employee benefits	(8)	(57)
Accrued expenses	(1,320)	296
Income taxes payable	<u>(1,851)</u>	<u>281</u>
Total adjustments	<u>3,858</u>	<u>2,630</u>
Net cash provided by operating activities	<u>5,112</u>	<u>6,405</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	<u>(1,932)</u>	<u>(107)</u>
Net cash used in investing activities	<u>(1,932)</u>	<u>(107)</u>
CASH FLOW FROM FINANCING ACTIVITIES:		
Dividends paid	-	(3,025)
Repayments of short-term borrowings	(3,028)	(1,616)
Repayment of long-term debt	<u>(39)</u>	<u>(19)</u>
Net cash used in financing activities	<u>(3,067)</u>	<u>(4,660)</u>

(continued)

RADICA GAMES LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Continued from previous page)

(Dollars in thousands)

	THREE MONTHS ENDED JAN 31,	
	1995	1994
	(unaudited)	(unaudited)
	\$	\$
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	113	1,638
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	11,038	4,698
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>11,151</u>	<u>6,336</u>
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	340	13
Income taxes	2,033	45

See accompanying notes to consolidated financial statements.

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS
For the three months ended January 31, 1995
(dollars in thousands)

1. REORGANIZATION AND BASIS OF PRESENTATION

The accompanying financial statements have been prepared, in accordance with accounting principles generally accepted in the United States of America and are presented in U.S. dollars as the Company's sales are predominantly denominated in U.S. dollars, for inclusion in a form 6-K for filing purposes with the Securities and Exchange Commission of Radica Games Limited ("Radica Games"), and include the accounts of Radica Games and its subsidiaries. The shares of Radica Games were listed on the NASDAQ Exchange on May 20, 1994.

"Radica Games", a newly formed Bermuda company, became the holding company of Radica Limited ("Radica HK"), a company incorporated in Hong Kong, on December 21, 1993, and Radica Enterprises, Ltd. ("Radica USA"), a company incorporated in the United States of America, on May 13, 1994, through exchange of common stock of Radica Games for all the common shares of Radica HK and Radica USA.

Because Radica HK and Radica USA have been under common control since their incorporation, the financial information for the period ended January 31, 1994 has been prepared to reflect the results of operations and cash flows of the Company as if the structure of the Company resulting from the above transactions had been in existence, for that period, in a manner similar to the pooling-of-interests method.

All significant intra-group transactions and balances have been eliminated on consolidation.

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS -- (Cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents -- Cash and cash equivalents include cash on hand, cash accounts, interest-bearing savings accounts, and time certificates of deposit with a maturity at purchase date of three months or less.

Inventories -- Inventories are stated at the lower of cost, determined by the weighted average method, or market.

Depreciation and amortization of property, plant and equipment -- Depreciation is provided on the straight line method at rates based upon the estimated useful lives of the property, generally not more than seven years except for leasehold land and buildings which are 50 years, the term of the lease. Costs of leasehold improvements are amortized over the life of the related asset or the term of the lease, whichever is shorter. No depreciation and amortization is provided for construction-in-progress until it is put into use.

Revenue recognition -- Revenues are recognized as sales when merchandise is shipped. The Company permits the return of damaged or defective products and accepts limited amounts of product returns in certain other instances. Accordingly, the Company provides allowances for the estimated amounts of these returns at the time of revenue recognition, based on historical experience adjusted for known trends.

Income taxes -- Certain items are treated differently for financial reporting purposes than for income tax purposes. Pursuant to the provision of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," deferred income taxes are provided, under the liability method, in recognition of these temporary differences, using the tax rates expected to be in effect when the related temporary differences reverse.

Foreign currency translation -- Assets and liabilities of foreign operations are translated using period-end exchange rates. Revenues and expenses of foreign operations are translated using average monthly exchange rates. The impact of exchange rate changes is shown as "Cumulative Translation Adjustment" in shareholders' equity. Net losses from foreign exchange transactions of \$227 in the quarter ended January 31, 1995 and \$112 in the quarter ended January 31, 1994 are included in selling, general and administrative expenses.

Post-retirement and post-employment benefits -- The Company does not provide post-retirement benefits to employees and post-employment benefits are immaterial.

Warranty -- Future warranty costs are provided for at the time of revenue recognition based on the management's estimate by reference to historical experience adjusted for known trends.

3. SHORT-TERM INVESTMENTS

At January 31, 1995, the Company had an investment in a pre-refunded tax-free municipal bond of \$3,000 which is scheduled to mature in August 1995.

4. INVENTORIES

Inventories by major categories are summarized as follows:

	January 31, 1995 (unaudited)	October 31, 1994
Raw materials	\$ 8,992	\$11,205
Work in progress	3,513	4,171
Finished goods	19,023	17,846
	<u>\$31,528</u>	<u>\$33,222</u>

5. RELATED PARTY TRANSACTIONS

The following table summarizes the transactions between the Company and related companies:

	Three Months Ended January 31, 1995 (unaudited)	Three Months Ended January 31, 1994 (unaudited)
John N. Hansen Company, Inc. Sales to	-	\$2,522
Rahn Sales Company, Inc. Sales to	-	\$ 78
Disc, Inc. Design fees paid to	-	\$ 144

On May 20, 1994 Disc, Inc. became a wholly owned subsidiary of the Company.

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS -- (Cont'd)

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	January 31, <u>1995</u> (unaudited)	October 31, <u>1994</u>
Land and buildings	\$ 5,663	\$5,663
Plant and machinery	3,805	3,269
Furniture and equipment	1,999	1,872
Leasehold improvements	518	504
Construction-in-progress	<u>3,346</u>	<u>2,091</u>
Total	15,321	13,399
Less: Accumulated depreciation and amortization	<u>(1,965)</u>	<u>(1,668)</u>
Total	<u><u>\$13,366</u></u>	<u><u>\$11,731</u></u>

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS -- (Cont'd)

6. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

Additions, disposals and depreciation and amortization of property, plant and equipment for the periods shown are as follows:

	Three Months Ended January 31, <u>1995</u> (unaudited)	Year Ended October 31, <u>1994</u>
Additions	<u>\$1,932</u>	<u>\$9,937</u>
Disposals -- net book value	<u>\$ -</u>	<u>\$ -</u>
Depreciation and amortization	<u>\$ 297</u>	<u>\$ 788</u>

Included in property, plant and equipment are assets acquired under capital leases with the following net book values:

	Three Months Ended January 31, <u>1995</u> (unaudited)	Year Ended October 31, <u>1994</u>
At cost:		
Plant and machinery	\$ 437	\$ 493
Less: accumulated depreciation	<u>(90)</u>	<u>(87)</u>
	<u>\$ 347</u>	<u>\$ 406</u>

Amortization of capital lease assets, which is included in depreciation and amortization expense in the accompanying statements of income, was \$22 for the period ended January 31, 1995 and \$60 for the year ended October 31, 1994.

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS -- (Cont'd)

7. INCOME TAXES

The components of income before taxes are as follows:

	Three Months Ended January 31, <u>1995</u> (unaudited)	Three Months Ended January 31, <u>1994</u> (unaudited)
United States	\$ 447	\$1,003
Foreign subsidiaries operating in :		
People's Republic of China	1,014	-
Hong Kong	<u>(17)</u>	<u>3,094</u>
	<u>\$1,444</u>	<u>\$4,097</u>

Prior to the reorganization on May 1994, Radica USA, the Company's principal operating subsidiary in the United States had elected to be treated as an S Corporation for U.S. Federal income tax purposes. As part of the reorganization the S Corporation status of Radica USA was terminated and subsequently, its income has been subject to Federal income tax.

Under the existing processing arrangement and in accordance with the current tax regulations in the People's Republic of China ("PRC"), the manufacturing income generated in the PRC is not subject to PRC taxes.

In accordance with the Hong Kong Inland Revenue Departmental Interpretation and Practice No.21, manufacturing operations carried out in the PRC by Hong Kong companies under a processing arrangement have been apportioned 50% of their income as not subject to Hong Kong income tax. During 1994, the Company's manufacturing operations were transferred to a wholly owned subsidiary operating in the PRC.

Income continuing to be generated from activities in Hong Kong is subject to Hong Kong income tax in full.

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS -- (Cont'd)

7. INCOME TAXES (Cont'd)

The provision for income taxes consists of the following:

	Three Months Ended January 31, <u>1995</u> (unaudited)	Three Months Ended January 31, <u>1994</u> (unaudited)
Hong Kong		
Current	\$6	\$ 279
Deferred	<u>8</u>	<u>(2)</u>
	\$14	\$ 277
United States		
State taxes on income	25	45
Federal income taxes	151	-
Deferred	<u>-</u>	<u>-</u>
	<u>\$190</u>	<u>\$322</u>

A reconciliation between the provision for income taxes computed by applying the statutory tax rates in the United States for 1995 and 1994 (Radica USA was not subject to Federal Income Tax before termination of its S Corporation status during fiscal 1994) to income before taxes and the actual provision for income taxes is as follows:

	Three Months Ended January 31, <u>1995</u> (unaudited)	Three Months Ended January 31, <u>1994</u> (unaudited)
US Statutory Rate	34%	34%
Provision for income taxes at statutory rate on income for the period	\$491	\$1,393
State income taxes	25	45
International rate differences	(7)	(781)
Income not subject to taxation	(345)	(341)
Others	<u>26</u>	<u>6</u>
Income tax provision	<u>\$190</u>	<u>\$322</u>

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS -- (Cont'd)

7. INCOME TAXES (Cont'd)

Deferred income taxes reflect the net tax effect of deductible temporary differences between the amounts of assets and liabilities for income tax purposes compared with the respective amounts for financial statements purposes. At January 31, 1995 and October 31, 1994 deferred income taxes comprised:

	January 31, <u>1995</u> (unaudited)	October 31, <u>1994</u>
Deferred tax assets:		
Excess tax depreciation over financial reporting depreciation	\$ (78)	\$ (71)
Advertising allowances	130	130
Others	129	129
	<u>\$ 181</u>	<u>\$ 188</u>

Management believes that no valuation allowance against the net deferred tax asset is necessary.

8. SHORT-TERM BORROWINGS

These include borrowings in the form of trade acceptances, and overdrafts with various banks.

	January 31, <u>1995</u> (unaudited)	October 31, <u>1994</u>
Credit facilities available at end of period	\$20,588	\$23,484
Utilized at end of period	12,445	15,473
Weighted average interest rate on borrowings at end of period	9.19%	10.1%

Interest rates are generally based on the banks' prime rate.

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS - (Cont'd)

9. LONG-TERM DEBT

	January 31, <u>1995</u> (unaudited)	October 31, <u>1994</u>
Long-term debt consists of:		
Capital lease obligations, (interest at 13.35% to 13.80%)	\$ 161	\$ 200
Current portion of long-term debt	<u>(112)</u>	<u>(127)</u>
Long-term debt, less current portion	<u>\$ 49</u>	<u>\$ 73</u>

10. NOTE PAYABLE

At January 31, 1995, the Company had a note payable for \$3,000 which matures on February 25, 1995 and accrues interest at 6.06% payable on maturity.

11. STOCK OPTIONS

The Company's 1994 Stock Option Plan (the "Stock Option Plan") provides for options to be granted for the purchase of an aggregate of 1,600,000 shares of common stock at per share prices not less than 100% of the fair market value at the date of grant as determined by the Compensation Committee of the Board of Directors. Options under this plan are generally exercisable ratably over five years from the date of grant unless otherwise provided.

In December 1993, an officer was granted an option under his employment agreement to purchase 188,000 shares of common stock of Radica Games at an exercise price of \$0.567 per share. Twenty percent of the stock options vest and become exercisable on each of the first five anniversaries of the date of the officer's employment agreement, which was December 13, 1993 and all of the options expire on October 31, 2003. During the first quarter of 1995, 50,000 options were granted under the Stock Option Plan exercisable at \$8.50 per share. At January 31, 1995, 1,186,000 options granted under the Stock Option Plan, exercisable at prices ranging from \$8.50 to \$8.53 per share and 188,000 options granted under the above-mentioned employment agreement are outstanding.

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS - (Cont'd)

12. OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK AND MAJOR CUSTOMERS

Accounts receivable of the Company are subject to a concentration of credit risk with customers in the retail sector. This risk is limited due to the large number of customers composing the Company's customer base and their geographic dispersion, though the Company has two customers which accounted for more than twenty and seventeen percent of net sales in the quarter ended January 31, 1995 and had two customers which accounted for more than fourteen and twelve percent of net sales in fiscal 1994. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers. In addition, approximately 6% of the accounts receivable balance as of January 31, 1995 is covered by letters of credit.

13. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of the Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments." The estimated fair value amounts have been determined by the Company, using available market information and appropriate valuation methodologies. The estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

The carrying amounts of cash and short-term investment, accounts receivable, accounts payable and note payable are reasonable estimates of their fair value.

At January 31, 1995, the Company has letters of credit outstanding totalling \$4,053 which guarantee various trade activities. The contract amount of the letters of credit is a reasonable estimate of the fair value since the value for each is fixed over the life of the commitment.

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS -- (Cont'd)

14. RETIREMENT PLAN

In 1993, the Company established a defined contribution retirement plan covering substantially all employees in Hong Kong. Under this plan, eligible employees may contribute amounts through payroll deductions which are not more than 5% of individual salary, supplemented by employer contributions ranging from 5% to 10% of individual salary depending on the years of service. The expense related to this plan was \$20 and \$49 for the quarter ended January 31, 1995 and fiscal 1994 respectively.

15. LITIGATION

Ten purported class actions filed in various United States District Courts against the Company, various of its officers and directors, and the managing underwriters of the Company's initial public offering have been consolidated in the United States District Court for the District of Nevada under the caption In re Radica Games Limited Securities Litigation, Master File No. CV-S-94-00653-DAE (LRL). Plaintiffs filed a consolidated complaint on November 4, 1994 that superseded all the complaints in the individual actions.

The named plaintiffs seek to represent a class consisting of purchasers of the Company's common stock in the initial public offering or in the open market from May 13 through July 22, 1994. The plaintiffs seek unquantified monetary damages and other relief against the defendants for alleged violations of Sections 11, 12(2), and 15 of the Securities Act of 1933, Sections 10(b) (and Rule 10b-5 thereunder), 20(a), and 20A(a) of the Securities Exchange Act of 1934, Sections 90.570, 90.660 and 90.660.4 of the Nevada Revised Statutes, and the common law of Nevada relating to the Company's registration statement and other public disclosures.

The Company believes the plaintiff's allegations are without merit and intends to defend these lawsuits vigorously.

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS - (Cont'd)

16. SEGMENT INFORMATION

The Company operates in one principal industry segment: the design, development, manufacturing and distribution of a variety of non-gambling casino theme games. Over 90% of the Company's products are sold in the United States. Geographic financial information is as follows:

	Three months ended January 31, 1995 (unaudited)	Three months ended January 31, 1994 (unaudited)
Net sales:		
United States	\$17,307	\$6,736
PRC and Hong Kong	176	5,621
	<u>\$17,483</u>	<u>\$12,357</u>
Operating income:		
United States	\$ 613	\$ 1,004
PRC and Hong Kong	1,036	3,106
	<u>\$1,649</u>	<u>\$4,110</u>
Identifiable assets:		
United States	\$33,536	\$ 4,761
PRC and Hong Kong	41,100	14,065
	<u>\$74,636</u>	<u>\$18,826</u>

A significant portion of PRC and Hong Kong net sales in the three months ended January 31, 1994 were export sales to the United States.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the attached financial statements and notes thereto, and with the audited financial statements, accounting policies and notes included in the Company's Annual Report to Shareholders for the fiscal year ended October 31, 1994, and in the Company's Annual Report on Form 20-F for such fiscal year as filed with the United States Securities and Exchange Commission.

**RESULTS OF OPERATIONS -- QUARTER ENDED JANUARY 31, 1995
COMPARED TO THE QUARTER ENDED JANUARY 31, 1994**

Net sales for the quarter ended January 31, 1995 of \$17.5 million increased 41.1% from the \$12.4 million for the same quarter in the preceding year and included more than 67,000 units of new products accounting for approximately \$0.56 million of net sales. The Company offered 55 models during the first quarter of 1995 compared to 32 models offered during the first quarter of 1994. The number of units sold in the first quarter of fiscal 1995 increased of 78.6% over the first quarter of fiscal 1994. Handheld games accounted for 81.8% of sales with Tabletop games accounting for 18.2%.

Gross profit for the quarter ended January 31, 1995 was \$7.8 million as compared to \$6.7 million for the same quarter in 1994, an increase of 16.0%. The gross margin for the quarter was 44.4%, down from 54.2% for the same quarter in 1994. This decline is due primarily to increased sales of lower margin products, together with higher costs of production carried forward from the fourth quarter.

Operating income for the first quarter of 1995 was \$1.6 million compared to \$4.1 million for the same quarter last year. Operating expenses increased to \$6.1 million from \$2.6 million in the first quarter of 1994. These increases were primarily due to sales commissions incurred in the first quarter as a result of Radica taking over distribution from third party distributors, increases in advertising and display expenses, additional salary and wage expenses and increases in research and development expenses. For the quarter sales commissions were 6.2% of sales, advertising and promotion expenses were 4.3% of sales, salary and wages were 8.6% of sales and research and development expenses were 3.0% of sales.

The effective blended tax rate for the quarter ended January 1995 was 13.12% compared to 7.9% for the same quarter in 1994. This was due to the 16.5% effective tax rate of the operations in Hong Kong, 0% effective tax rate of the British Virgin Islands manufacturing operation in China and a 34% effective tax rate of the operation of Radica USA, in effect since Radica USA terminated its S Corporation status on May 20, 1994.

Net income for the quarter ended January 31, 1995 was \$1.3 million, down from net income of \$3.8 million in the same quarter in 1994, a decrease of 67%. The net income per common share in the period ended January 1995 was \$0.06 as compared to \$0.19 (proforma EPS of \$0.17) for the same quarter in 1994.

CAPITAL RESOURCES AND LIQUIDITY

Cash and cash equivalents totalled \$11.1 million at January 31, 1995, up \$0.1 million from the fiscal year-end at October 31, 1994. Working capital at January 31, 1995 was \$39.4 million, a \$0.3 million decrease from working capital of \$39.7 million at October 31, 1994. The ratio of current assets to current liabilities increased to 2.8 at January 31, 1995 from 2.1 at October 31, 1994. This increase in the current ratio is due to repayments of year-end liabilities.

Short-term borrowings of \$12.4 million at January 31, 1995 were down \$3.0 million from \$15.5 million at October 31, 1994. This decrease is due primarily to repayment of credit lines used for the purchase of raw materials for the manufacture of year-end inventories.

The Company believes that its existing cash and cash equivalents and cash generated from operations are sufficient to satisfy its current anticipated working capital needs. However, strong demand for the Pub Poker™ product could require substantial increases in working capital. Potential sources of financing may include bank or other debt, public debt securities, available cash and funds generated from operations, or a combination of these.

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings

See Note 15 of Notes to Financial Statements, included herein.

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None.

(b) Reports on Form 8-K

None.

RADICA GAMES LIMITED

RADICA GAMES LIMITED REPORTS RESULTS FOR THE FIRST QUARTER ENDED JANUARY 31, 1995

FOR IMMEDIATE RELEASE
March 6, 1995

CONTACT: JON N. BENGTSON
(702) 829-8603

(Reno, Nevada) Radica Games Limited (NASDAQ RADAF) reported today net sales growth of 41% to \$17.5 million for the first quarter of fiscal 1995 compared to \$12.4 million for the first quarter of 1994. Net income for the quarter declined 67% to \$1.3 million or \$0.06 per share, compared to \$3.8 million or \$0.19 per share for the first quarter of 1994 as a result of pressure on gross margin and increases in operating expenses.

The first quarter improvement in net sales was due primarily to a strong Christmas demand for casino theme products, increases in the number of retail accounts that carry Radica's products and an increase in the number of models offered by retailers. The company offered 55 models during the first quarter of 1995 compared to 32 models offered during the first quarter of 1994.

Gross profit for the first quarter of fiscal 1995 increased 16% to \$7.8 million from \$6.7 million for the same period last year. The gross margin for the first quarter was 44.4% compared to 54.2% for the same quarter last year and 41.3% in the fourth quarter of 1994.

The decline in gross margin over last year's first quarter was due primarily to higher average costs of inventory produced in the fourth quarter of 1994 which resulted from heavy use of sub-contractors. The gross margin was also impacted by lower pricing for retailers as they increased their purchase volumes, and to a lesser extent by the introduction of lower priced products that carry lower margins, primarily the keychain and 'video series' products. The gross margin increase from 41.3% in the fourth quarter of 1994 resulted from curtailed use of sub-contractors and a decline in manufacturing costs in the first quarter to be more in line with historic levels.

Operating income for the first quarter of 1995 was \$1.6 million compared to \$4.1 million for the same quarter last year. Operating expenses increased to \$6.1 million from \$2.6 million in the first quarter of 1994. These increases were primarily due to sales commissions incurred in the first quarter as a result of Radica taking over distribution from third party distributors, increases in advertising and

display expenses, additional salary and wage expenses and increases in research and development expenses. For the quarter sales commissions were 6.2% of sales, advertising and promotion expenses were 4.3% of sales, salary and wages were 8.6% of sales and research and development expenses were 3.0% of sales. The company plans to continue emphasizing advertising and promotion, trade fixtures and displays including service of those displays at the store level. It is anticipated that these investments will expand shelf space for current and new products.

"Our investment in people and marketing support have placed pressure on our short-term results through increases in selling, general and administrative expenses. We remain convinced that these actions will make us a formidable long-term force in the market, both in our core business and the emerging businesses of Pub Poker™ and "OEM" manufacturing", said Bob Davids, President and CEO.

"We are pleased with the increase in sales we have seen during the first quarter. The casino theme game category continues to be strong and we believe the introduction of new models in 1995 coupled with expanded shelf space should help continue the current trend," said Davids.

Davids reported that the Pub Poker™ product was introduced during the quarter and is in market test. He expects the company to begin placing the Pub product in the market during the last half of fiscal 1995.

Davids reported that the devaluation of the Mexico Peso had caused a lowering of the company's production costs in the Juarez plant. However, Davids said, this currency crisis had slowed the company's efforts to expand sales into Mexico.

"We are very proud that we received the 1994 Vendor Award of Excellence from Target stores. This recognition indicates to us that the people, systems and infrastructure we have put in place are meeting our high standards and continue to strengthen our relationships with our retailers," said Davids.

RADICA GAMES LIMITED
CONSOLIDATED STATEMENTS OF INCOME

*(Dollars in thousands,
except per share data)*

	THREE MONTHS ENDED JANUARY 31,	
	<u>1995</u>	<u>1994</u>
	(unaudited)	(unaudited)
	\$	\$
REVENUES:		
Net Sales:		
Net sales to unaffiliated customers	\$17,483	\$ 9,757
Net sales to related parties	<u>-</u>	<u>2,600</u>
<i>Total net sales</i>	17,483	12,357
Cost of sales	<u>(9,714)</u>	<u>(5,662)</u>
<i>Gross profit</i>	<u>7,769</u>	<u>6,695</u>
 OPERATING EXPENSES:		
Selling, general and administrative expenses	(5,596)	(2,302)
Research and development	<u>(524)</u>	<u>(283)</u>
<i>Total operating expenses</i>	<u>(6,120)</u>	<u>(2,585)</u>
 OPERATING INCOME	1,649	4,110
 NET INTEREST EXPENSE	(205)	(13)
 INCOME BEFORE INCOME TAXES	1,444	4,097
 INCOME TAXES	(190)	(322)
 NET INCOME	1,254	3,775
 NET INCOME PER SHARE	0.06	0.19
 AVERAGE NUMBER OF SHARES OUTSTANDING	22,780,000	20,260,000

**RADICA GAMES LIMITED
CONSOLIDATED BALANCE SHEETS**

ASSETS

(Dollars in thousands)

	<u>JAN. 31.</u> <u>1995</u> (unaudited) \$	<u>OCT. 31.</u> <u>1994</u> \$
CURRENT ASSETS:		
Cash and cash equivalents	11,151	11,038
Short-term investments	3,230	3,230
Accounts receivable, net of allowances for doubtful accounts of \$90 and \$96 in 1995 and 1994 and estimated customer returns of \$638 and \$138 in 1995 and 1994	14,245	25,977
Inventories	31,528	33,222
Prepaid expenses and other current assets	<u>705</u>	<u>1,698</u>
<i>Total current assets</i>	60,859	75,165
PROPERTY, PLANT AND EQUIPMENT, NET	13,366	11,731
DEFERRED INCOME TAXES	181	188
OTHER ASSETS	<u>230</u>	<u>242</u>
<i>Total Assets</i>	<u><u>74,636</u></u>	<u><u>87,326</u></u>

**RADICA GAMES LIMITED
CONSOLIDATED BALANCE SHEETS**

LIABILITIES AND STOCKHOLDERS' EQUITY

(Dollars in thousands)

	<u>JAN. 31.</u> <u>1995</u> (unaudited) \$	<u>OCT. 31.</u> <u>1994</u> \$
CURRENT LIABILITIES:		
Short-term borrowings	12,445	15,473
Current portion of long-term debt	112	127
Accounts payable	2,654	10,401
Note payable	3,000	3,000
Accrued payroll and employee benefits	347	355
Accrued expenses	2,606	3,926
Income taxes payable	<u>299</u>	<u>2,150</u>
<i>Total current liabilities</i>	<u>21,463</u>	<u>35,432</u>
LONG-TERM DEBT	<u>49</u>	<u>73</u>
STOCKHOLDERS' EQUITY		
Common stock		
par value \$0.01 each, 100,000,000 shares		
authorized, 22,780,000 shares outstanding	228	228
Additional paid-in capital	28,179	28,129
Retained earnings	24,696	23,443
Cumulative translation adjustment	<u>21</u>	<u>21</u>
<i>Total stockholders' equity</i>	<u>53,124</u>	<u>51,821</u>
<i>Total liabilities and stockholders' equity</i>	<u>74,636</u>	<u>87,326</u>

RADICA GAMES LIMITED

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

April 3, 1995

NOTICE IS HEREBY GIVEN that the Annual Meeting of the Shareholders of Radica Games Limited (the "Company") will be held at Holiday Emerald Springs, 325 East Flamingo Road, Las Vegas, Nevada on Monday, April 3, 1995, commencing at 10:00 a.m., for the following purposes:

- (a) To elect directors;
- (b) To re-appoint Deloitte Touche Tohmatsu as Independent Auditor and to authorize the directors to fix the Independent Auditor's remuneration; and
- (c) To transact such further or other business matters as may properly come before the meeting or any adjournments thereof.

Only shareholders of record at the close of business on March 6, 1995 will be entitled to notice of the meeting.

The Annual Report containing the Financial Statements of the Company, and the Report of the Independent Auditor thereon, Management Information Circular/Proxy Statement and a form of proxy are enclosed with this Notice of Meeting.

By order of the Board of Directors.

JON N. BENGTON
Executive Vice President
and Chief Financial Officer

March 10, 1995
Reno, Nevada

Note: If you are unable to be present at the meeting in person, please fill in, date and sign the enclosed proxy and return it to the Executive Vice President of the Company in the enclosed envelope.

MANAGEMENT INFORMATION CIRCULAR/PROXY STATEMENT

This Management Information Circular/Proxy Statement ("this Circular") is furnished to shareholders of Radica Games Limited (the "Company") in connection with the solicitation by and on behalf of the management of the Company of proxies to be used at the Annual Meeting of Shareholders (the "Meeting") of the Company to be held at Holiday Emerald Springs, 325 East Flamingo Road, Las Vegas, Nevada, on Monday, April 3, 1995 at 10:00 a.m., and at any adjournments, for the purposes set forth in the attached Notice of Annual Meeting of Shareholders (the "Notice").

This Circular, the attached Notice and the accompanying form of proxy are first being mailed to shareholders of the Company on or about March 10, 1995. The Company will bear all costs associated with the preparation and mailing of this Circular, the Notice and form of proxy as well as the cost of solicitation of proxies. The solicitation will be primarily by mail; however, officers and regular employees of the Company may also directly solicit proxies (but not for additional compensation) by telephone or telegram. Banks, brokerage houses and other custodians and nominees or fiduciaries will be requested to forward proxy solicitation material to their principals and to obtain authorizations for the execution of proxies and will be reimbursed for their reasonable expenses in doing so.

No person is authorized to give any information or to make any representations other than those contained in this Circular and, if given or made, such information must not be relied upon as having been authorized.

APPOINTMENT AND REVOCATION OF PROXIES

The persons named in the enclosed form of proxy are directors and officers of the Company. A shareholder has the right to appoint a person (who need not be a shareholder of the Company) as nominee to attend and act for and on such shareholder's behalf at the Meeting other than the management nominees named in the accompanying form of proxy. This right may be exercised either by striking out the names of the management nominees where they appear on the front of the form of proxy and by inserting in the blank space provided the name of the other person the shareholder wishes to appoint, or by completing and submitting another proper form of proxy naming such other person as proxy.

A shareholder who has given a proxy, in addition to revocation in any other manner permitted by applicable law, may revoke the proxy within the time periods described in this Circular by an instrument in writing executed by the shareholder or by his/her attorney authorized in writing or, if the shareholder is a body corporate, by an officer or attorney thereof duly authorized.

Shareholders desiring to be represented at the Meeting by proxy or to revoke a proxy previously given, must deposit their form of proxy or revocation of proxy at the principal executive offices of Radica Enterprises, Ltd. ("Radica U.S.A.") at 5301 Longley Lane, #157, Reno, Nevada 89511, addressed to the Executive Vice President of the Company, at any time up to and including the last business day preceding the day of the Meeting, or any adjournment thereof, at which the proxy is to be used, or on the day of the Meeting with the chairman of the Meeting prior to the Meeting, or any adjournment thereof. If a shareholder who has completed a proxy attends the Meeting in person, any votes cast by the shareholder on a poll will be counted and the proxy will be disregarded.

VOTING OF PROXIES

The shares represented by any valid proxy in favor of the management nominees named in the accompanying form of proxy will be voted for, against or withheld from voting (abstain) on the election of directors, and on the reappointment of the Independent Auditor and the authorization of the directors to fix the remuneration of the Independent Auditor, in accordance with any specifications or instructions made by a shareholder on the form of proxy. In the absence of any such specifications or instructions, such shares will be voted FOR the election as directors of the management nominees named in the Circular, and FOR the re-appointment of Deloitte Touche Tohmatsu as Independent Auditor and the authorization of the directors to fix the Independent Auditor's remuneration.

The accompanying form of proxy confers discretionary authority upon the persons named therein with respect to amendments or variations to matters identified in the Notice and with respect to such other business or matters which may properly come before the Meeting or any adjournments thereof.

RECORD DATE

The Board of Directors of the Company has fixed the close of business on March 6, 1995, as the record date (the "Record Date") for the Meeting. Only holders of record of Common Stock as of the close of business on the Record Date are entitled to receive notice of and to attend and vote at the Meeting.

VOTING SECURITIES AND THEIR PRINCIPAL HOLDERS

As of March 6, 1995 there were issued and outstanding 22,780,000 shares of Common Stock.

The following table sets forth information with respect to the only shareholders known to the directors or officers of the Company to own beneficially, directly or indirectly, or exercise control or direction over, more than 5% of the issued and outstanding shares of Common Stock of the Company, as of March 6, 1995:

<u>Name and Address of Beneficial Owner</u>	<u>Number of Shares</u>	<u>Percentage of Common Stock Outstanding</u>
Robert E. Davids Suite R, 6th Floor 2-12 Au Pui Wan Street Fo Tan, Hong Kong	5,130,000	22.5%
James J. Sutter Suite R, 6th Floor 2-12 Au Pui Wan Street Fo Tan, Hong Kong	5,300,000	23.3
The John N. Hansen Estate and the Hansen Trust (1) 249 Shearwater Isle Foster City, CA 94402	2,187,000	9.6
International Game Technology ("IGT") 520 South Rock Boulevard Reno, NV 89502	2,100,000	9.2

- (1) The shares of Common Stock held by the Hansen Trust are attributable to the John N. Hansen Estate for this purpose.

ELECTION OF DIRECTORS

The following persons are nominees proposed by management for election as directors of the Company to serve until the next annual meeting of the shareholders of the Company or until their successors are duly elected or appointed. **A shareholder may withhold his vote from any individual nominee by writing the particular nominee's name on the line provided in the form of proxy.** Management does not contemplate that any of the nominees will be unable to serve as a director. If, as a result of circumstances not now contemplated any nominee shall be unavailable to serve as a director, the proxy will be voted for the election of such other person or persons as Management may select. Each director elected will hold office until the next annual meeting of shareholders of the Company, or until his/her respective successor is elected or appointed in accordance with applicable law and the Company's bye-laws.

The following table and the textual discussion which follows sets forth information with respect to each current director of the Company (which persons include all the executive officers) and each of the ten management nominees for director, including their names, ages, the number of shares beneficially owned by each such person individually and as a group, all positions and offices with the Company held by each such person (in addition to their directorships) and their term of office as director:

<u>Name of Beneficial Owner</u>	<u>Age</u>	<u>Current Term Expires</u>	<u>Other Positions and Offices Presently Held with the Company</u>	<u>Number of Shares (excluding Option Shares)</u>	<u>Percentage of Common Stock Outstanding</u>
Robert E. Davids	51	1995	President, Chief Executive Officer	5,130,000	22.5%
James J. Sutter	48	1995	Chairman of the Board, Executive Vice President	5,300,000	23.3%
Jon N. Bengtson	51	1995	Executive Vice President, Chief Financial Officer	Nil	Nil
David C.W. Howell	32	1995	Vice President, Chief Accounting Officer	191,400(4)	Nil
Lam Siu Wing	37	1995	Vice President, Engineering	188,000(4)	Nil
Mary Jane Hansen (1)	74	N/A	None	2,187,000(1)	9.6%
Calvin A.J. Waller (2)(3)	57	1995	None	Nil	Nil
Robert Townsend (2)(3)	74	1995	None	Nil	Nil
James O'Toole (2)(3)	49	1995	None	Nil	Nil
Raymond D. Pike (2)(3)	47	1995	None	5,000(4)	Nil

(1) Mr. John N. Hansen served as a director of the Company from June 1994 until his death in January 1995. Mrs. Mary Jane Hansen has been nominated for election as a director to represent the Hansen Trust. The shares shown represent shares owned by the John N. Hansen Estate and the Hansen Trust.

(2) Member of the Audit Committee.

(3) Member of the Compensation Committee.

(4) These shares represent less than 1% of the total stock outstanding.

All directors and executive officers of the Company as a group (9 persons, not including Mrs. Hansen) owned beneficially 10,814,400 shares of Common Stock (not including 564,000 shares which are subject to options held by such persons), or approximately 47.5% of the Common Stock Outstanding as of March 6, 1995.

Pursuant to the Shareholders Agreement between the controlling shareholders and the Company, the Board of Directors of the Company will consist of 11 members, elected as provided in such Shareholders Agreement. Prior to the date of this filing, ten such directors had been elected and nine such directors were serving. John N. Hansen had been the representative of the Hansen Trust. Due to Mr. Hansen's death, a new director, Mrs. Mary Jane Hansen, representing the Hansen Trust is being nominated at the Company's 1995 annual meeting of shareholders. The Company expects to appoint one additional independent director later this year.

Robert E. Davids has been the Chief Executive Officer of the Company since January 1994, and the President and a director since December 1993. Prior to that, Mr. Davids had been the Co-Chief Executive Officer with Mr. Sutter and a director of Radica HK since he joined the Company in 1988. Mr. Davids has over 30 years experience in the development, design and engineering of non-gambling

casino gifts, commercial gaming machines, automobiles and other products. From 1984 until he joined the Company, he was the General Manager of Prospector Gaming Enterprises Inc., a casino in Reno, Nevada. From 1978 through 1984, Mr. Davids served in various positions at IGT, including Director of Special Projects and Director of Engineering.

James J. Sutter has been the Chairman of the board of the Company since January 1994, and the Executive Vice President and a director since December 1993. Prior to that, Mr. Sutter had been the Co-Chief Executive Officer with Mr. Davids and a director of Radica HK since 1989, prior to which he had been the Chief Executive Officer since he founded the Company with Mr. Hansen in 1985. Mr. Sutter is responsible for the Company's sales and marketing, and shares responsibility with Mr. Davids for the overall operation and strategic direction of the Company. He also participates actively in product development and the design, engineering and packaging of products. Mr. Sutter has over 20 years of sales and marketing experience, including over 10 years in international sales. Prior to founding the Company, Mr. Sutter was the General Manager for another company which previously sold the original souvenir slot machine banks sold by the Company.

Jon N. Bengtson has been the Executive Vice President, Chief Financial Officer and a director of the Company since January 1994 and was appointed President and Chief Executive Officer of Radica USA in December 1993. Mr. Bengtson joined The Sands Regent in 1984 and served in various positions, including Vice President of Finance and Administration, Chief Financial Officer, Treasurer and Director, Senior Vice President and Director and Executive Vice President and Director until December 1993. From 1980 to 1984, Mr. Bengtson was a director and served in various positions with IGT, including Treasurer and Vice President of Finance and Administration and Vice President of Marketing. Mr. Bengtson is currently a director of The Sands Regent and its subsidiary, Patrician, Inc.

David C.W. Howell has been Vice President and Chief Accounting Officer and a director of the Company since January 1994. From 1992 to 1994, Mr. Howell was a Finance Director and Company Secretary of Radica HK. From 1984 to 1991, Mr. Howell was employed by Ernest & Young and from 1987 was a Chartered Accountant of the Institute of Chartered Accountants in England and Wales and is a member of the Hong Kong Society of Accountants.

Lam Siu Wing has been Vice President, Engineering and a director of the Company since January 1994. Prior to that, he had been the head of the Radica HK engineering department for eight years since he joined the Company in 1985. Mr. Lam has over 13 years of experience in plastic design and production engineering. Prior to joining the Company, he served as a project designer in the electrical appliance industry. Mr. Lam has a post graduate diploma in Engineering Management from City Polytechnic of Hong Kong.

John N. Hansen, formerly a director of the Company, had been a director of Radica HK since he founded Radica HK with Mr. Sutter in 1985. He was the owner and founder of John N. Hansen Company, Inc. and had over 40 years experience in distributing gifts and games in the United States.

Mary Jane Hansen is the widow of John N. Hansen and Trustee for the Hansen Trust.

Calvin A.J. Waller has been a director of the Company since June 1994. Since July 1994, Mr. Waller has been a Senior Vice President for ICF Kaiser Industries. He was President and Chief Executive Officer of RKK, Ltd. (an environmental technology company engaged in large scale containment of hazardous waste) from May 1993 to July 1994. From 1991 to 1993, Mr. Waller was Executive Vice President and Chief Operating Officer of RKK, Ltd. From 1989 to 1991, Mr. Waller was a Lieutenant General in the U.S. Army, during which time he acted as Commanding General of the I Corps (First U.S. Corps) and of Fort Lewis, Washington. Mr. Waller was Deputy Commander-in-Chief of Operations for Desert Storm and Desert Shield, under General Norman Schwarzkopf.

Robert Townsend is best known as the author of "Up the Organization" and "Further Up the Organization." Mr. Townsend formerly held positions with Avis as its President and Chief Executive Officer and American Express as Senior Vice President of International Banking, Investment and Planning.

James O'Toole is Vice President of the Aspen Institute where he heads the Executive Seminar and directs the Corporate Leaders Forum, a consortium of twenty corporations dedicated to preparing the next generation of their executives to lead change. Mr. O'Toole retired in 1994 from the faculty of the Graduate School of Business at the University of Southern California after a career of more than twenty years, where he held the University Associates' Chair of Management.

Raymond D. Pike is Executive Vice President of Corporate Development for International Game Technology ("IGT"). Mr. Pike has held various executive positions with IGT since 1980. Mr. Pike previously was Deputy Attorney General and Chief of the Gaming Division for the State of Nevada.

MEETINGS OF THE BOARD OF DIRECTORS AND COMMITTEES

During fiscal 1994, the Board of Directors of the Company met 2 times. Each of the directors, during his tenure as a director, attended at least 75% of the meetings of the Board of Directors and of each committee of the board on which he served.

The responsibilities of the Audit Committee include recommending to the Board of Directors the independent certified public accountants to be selected to conduct the annual audit of the books and accounts of the Company, reviewing the proposed scope of such audit and approving the audit fees to be paid, and reviewing the adequacy and effectiveness of the internal auditing, accounting and financial controls of the Company with the independent certified public accountants and the Company's financial and accounting staff. The Audit Committee consists entirely of non-management directors. The Audit Committee is currently comprised of 4 members of the Board, being Messrs. Pike, Waller, O'Toole and Townsend. In fiscal 1994, it held 2 meetings.

The responsibilities of the Compensation Committee include reviewing and approving executive appointments and remuneration and supervising the administration of the Company's employee benefit plans. The Compensation Committee is currently comprised of 4 members of the Board, being Messrs. Pike, Waller, O'Toole and Townsend. In fiscal 1994, it held 2 meetings.

The Company does not have a Nominating Committee.

INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS

In February 1994, Messrs. Davids, Sutter and the Hansen Trust (the "Sellers") sold an aggregate of 11.2% (before giving effect to the Company's initial public offering (the "IPO") and the related reorganization (the "Reorganization")) of the Company's Common Stock to IGT for \$5,850,000 in cash and 374,436 shares of IGT common stock. The closing price of the IGT common stock on the New York Stock Exchange on January 12, 1994 (the date the agreement with IGT was executed), was \$33 $\frac{1}{8}$ per share.

Messrs. Davids and Sutter, the Hansen Trust, IGT and the Company are parties to a shareholders agreement (the "Shareholders Agreement") which provides for certain matters relating to the management of the Company and ownership of its Common Stock. The Shareholders Agreement provides that the Board of Directors will consist of 11 directors and that so long as each party other than the Company (each, a "Shareholder", and collectively the "Shareholders") owns at least 5% of the Company's outstanding Common Stock, each such Shareholder will be entitled to elect one Director at any meeting at which Directors are to be elected.

The Shareholders Agreement also provides that following the initial public offering, the Board of Directors shall include four independent directors, each of whom must be acceptable to the Shareholders, and three directors (each a "Company Director") nominated by the majority of the directors (other than the existing Company Directors) then in office. One of the Company Directors initially was Mr. Bengtson. The Shareholders Agreement sets forth certain other matters relating to the election and removal of directors and provides that the director nominated by IGT will be a member of all committees of the Board of Directors.

In addition to restrictions imposed by U.S. securities laws and Bermuda law, the Shareholders Agreement prohibits transfers of shares of Common Stock by the Shareholders, except (a) transfers to certain specified family members, in the case of individual Shareholders, and subsidiaries, in the case of IGT, (b) transfers in accordance with the right of first refusal provisions (as described below), (c) transfers pursuant to Rule 144 under the Securities Act (so long as the transferee does not thereafter own 5% or more of the votes represented by the then outstanding Common Stock), (d) transfers made in connection with the exercise of any Shareholders' registration rights (as described below) and (e) transfers made in an initial public offering (so long as Messrs. Davids and Sutter each retains at least 21% of the outstanding Common Stock). In addition, Messrs. Davids and Sutter are not permitted to transfer any shares pursuant to clauses (b) or (c) above prior to February 16, 1996, without IGT's prior written consent.

The Shareholders Agreement provides that each of IGT and Messrs. Davids and Sutter has a right of first refusal on the Common Stock owned by the other two Shareholders entitling such Shareholder to purchase any shares of Common Stock that either of the other two proposes to transfer to a third party.

Pursuant to the Shareholders Agreement, the Company has agreed, at anytime after February 16, 1996 and subject to certain specified conditions, to use its reasonable efforts to prepare and file one registration statement on behalf of each Shareholder (the "Demand Registration Rights") under the Securities Act, and to use its reasonable efforts to qualify the shares for offer and sale under any applicable U.S. state securities laws. The Shareholders Agreement also grants each Shareholder certain "piggyback" registration rights entitling each Shareholder, at any time after February 16, 1996, to sell Common Stock in any registered offerings of equity securities of the Company, for the account of the Company or on behalf of its security holders. These "piggyback" registration rights are exercisable by each Shareholder only twice.

In addition, each of Messrs. Davids and Sutter may exercise his Demand Registration Rights and "piggyback" registration rights only with respect to securities representing the number of shares he would otherwise be permitted to transfer in compliance with Rule 144 after February 16, 1996, minus the aggregate number of shares sold by him pursuant to Rule 144 or pursuant to the Demand Registration Rights or "piggyback" registration rights under the Shareholders Agreement, unless he obtains IGT's prior written consent.

The Shareholders Agreement provides that the foregoing restrictions on transfer, rights of first refusal and provisions relating to the election of directors will terminate on March 31, 2004.

Prior to the closing of the IPO, Radica Games Limited purchased all of the outstanding Common Stock of Radica USA from Mr. Davids, Mr. Sutter and Mr. Hansen in exchange for 1,245,000 shares of the Common Stock. Radica Games Limited also purchased all of the outstanding Common Stock of Disc from Mr. Davids for an amount equal to the net book value of its assets. Radica USA distributed to its stockholders all of its previously earned and undistributed taxable S Corporation earnings through the date of termination of its S Corporation status.

Prior to the IPO, the Company sold products to Radica USA on an arm's length basis and paid Radica USA \$50,000 per fiscal quarter (\$20,000 per fiscal quarter prior to October 31, 1993) to provide warranty services in North America for the Company's products. In addition, the Company paid Disc its expenditures, including capital expenditures, plus a fee equal to 4% of such expenditures, in return for certain design and engineering services provided by Disc to the Company.

The Company previously sold its products on an arm's length basis to John N. Hansen Company, Inc. and Rahn Sales Company, two U.S. distributors in which John N. Hansen had a controlling interest. The Company had also borrowed money from John N. Hansen Company, Inc. in fiscal years 1992 and 1993. No borrowings from Mr. Hansen had been outstanding since October 31, 1993.

COMPENSATION OF OFFICERS AND DIRECTORS

Compensation

In fiscal 1994, the aggregate amount of compensation paid to all executive officers and directors as a group for services in all capacities was approximately \$840,972.

Each outside (i.e., non-employee and non-affiliated) director of the Company receives a \$10,000 annual fee payable in quarterly installments, a fee of \$600 for attendance at each meeting of the Board of Directors and a fee of \$600 for attendance at each Committee meeting. Directors who are employees or affiliates of the Company will not be paid any fees or additional remuneration for service as members of the Board of Directors or its Committees.

Each outside director received non-qualified stock options to purchase 30,000 shares of Common Stock of the Company upon initial election to the Board of Directors at an exercise price equal to the initial public offering price of the Company's Common Stock and exercisable after one year from the grant. Upon re-election to the Board of Directors, each outside director will receive non-qualified stock options to purchase 5,000 shares of Common Stock of the Company at an exercise price equal to the then current market price of the Company's Common Stock.

Employment Agreements

Messrs. Davids, Sutter and Bengtson have each entered into individual employment agreements with the Company. The employment Agreements are for periods of two years each, from April 1994 in the case of Messrs. Davids and Sutter and from December 1993 in the case of Mr. Bengtson. Each Employment Agreement is terminable by the Company for cause. Messrs. Davids, Sutter and Bengtson shall each receive minimum annual base salaries of \$183,000, \$183,000 and \$175,000, respectively. The Employment Agreements also contain certain restrictions on the employees' involvement in businesses other than the Company during their course of employment and certain provisions applicable after termination of employment which prohibit the solicitation of customers and other employees of the Company, employment or engagement with competing entities, or the disclosure of proprietary information of the Company. The agreements for Messrs. Sutter and Davids also require that the Company provide each with a residence in Hong Kong.

OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT OR SUBSIDIARIES

The Company's 1994 Stock Option Plan provides for the granting of stock options to directors, officers and employees of the Company. The Stock Option Plan is administered by the Compensation Committee of the Board of Directors. Subject to the provisions of the Stock Option Plan, the Compensation Committee shall have sole authority to determine which of the eligible directors and employees of the Company shall receive stock options, the terms, including applicable vesting periods, of such options, and the number of shares for which such options shall be granted.

The total number of shares of the Company's Common Stock that may be purchased pursuant to stock options under the Stock Option Plan shall not exceed in the aggregate 1.6 million shares, and the option price per share with respect to each such option shall be determined by the Compensation Committee but shall be not less than 100% of the fair market value of the Company's Common Stock on the date such option is granted as determined by the Compensation Committee. The Stock Option Plan terminates in 2004 unless terminated earlier.

In December 1993, Mr. Bengtson was granted an option under his employment agreement to purchase 188,000 shares of common stock of Radica Games at an exercise price of \$0.567 per share and an aggregate of 1,096,000 options (exclusive of the outside directors' options referred to above) were granted to directors, officers and other employees during fiscal 1994 under the Stock Option Plan to purchase the Company's shares at exercise prices ranging from \$8.50 to \$8.53 per share. Twenty percent of the stock options vest and become exercisable on each of the first five anniversaries of the date of grant and all of the options expire in ten years. At October 31, 1994, the balance sheet date, all options granted were outstanding.

APPOINTMENT OF INDEPENDENT AUDITOR

The person named in the enclosed form of proxy will, in the case of a ballot and in the absence of specifications or instructions to vote against or not to vote (abstain) in the form of proxy, vote for the re-appointment of Deloitte Touche Tohmatsu as the Independent Auditor of the Company to hold office until the next annual meeting of shareholders of the Company and to authorize the directors to fix the Independent Auditor's remuneration. Deloitte Touche Tohmatsu has been the Independent Auditor of the Company since 1989.

Representatives of Deloitte Touche Tohmatsu are expected to attend the Meeting, will have an opportunity to make a statement if they so desire and are expected to be available to respond to appropriate questions.

SHAREHOLDER PROPOSALS

Proposals of shareholders intended to be presented at the 1996 annual meeting of shareholders must be received by the Company at the principal executive offices of Radica U.S.A. in the United States for inclusion in the Company's 1996 management information circular/proxy statement on or before November 10, 1995.

OTHER MATTERS

Management is not aware of any amendments or variations to matters identified in the Notice or of any other matters that are to be presented for action to the Meeting other than those described in the Notice.

Information stated in this Circular is dated as of March 6, 1995 except where otherwise indicated. The contents and the mailing of this Circular have been approved by the Board of Directors of the Company.

Robert E. Davids
President and Chief
Executive Officer

Jon N. Bengtson
Executive Vice President
and Chief Financial Officer

The Company files an Annual Report on Form 20-F with the Securities and Exchange Commission. A copy of this Circular and the Annual Report containing the financial statements of the Corporation and Management's Discussion and Analysis of Financial Condition and Results of Operations, will be sent to any person upon request in writing addressed to Investor Relations at Radica U.S.A.'s principal executive offices at 5301 Longley Lane, Suite 157, Reno, Nevada 89511-1806. Copies are without charge to any shareholder.

Radica Games Limited

Annual

Report

1994

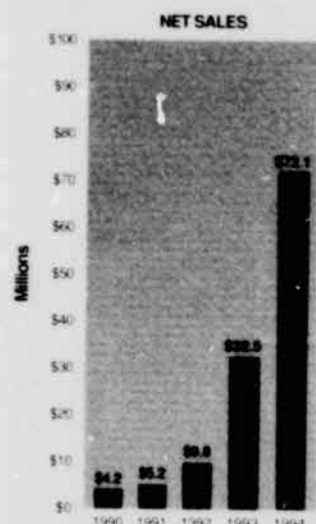
bout the Company.

Radica Games Limited designs, develops, manufactures and distributes a variety of non-gambling casino theme games. The Company also has contracted to manufacture commercial gaming machines and has developed an entertainment system known as Pub Poker™ or Free Poker™ designed to provide entertainment in pubs, taverns and retail liquor establishments. The Company manufactures its products in its factories in southern China and Juarez, Mexico and markets throughout the world. The Company's United States distribution subsidiary markets over 90% of the Company's sales in the United States.

Selected Consolidated Financial Highlights

	Year Ended October 31,				
(US dollars in thousands, except share data)	1994	1993	1992	1991	1990
Net sales	\$ 72,092	\$ 32,505	\$ 9,853	\$ 5,154	\$ 4,222
Cost of Sales	37,823	16,085	5,334	2,802	2,472
Gross profit	34,269	16,420	4,519	2,352	1,750
Operating expenses:					
Selling, general and administrative	13,677	4,766	2,422	1,270	1,232
Research and development	1,577	652	158	129	208
Total operating expenses	15,254	5,418	2,580	1,399	1,440
Operating income	19,015	11,002	1,939	953	310
Interest income (expenses)	95	(65)	(41)	(33)	(78)
Income before income taxes	19,110	10,937	1,898	920	232
Income taxes	1,950	860	186	152	44
Net income	\$ 17,160	\$ 10,007	\$ 1,712	\$ 768	\$ 188
Per common share data:					
Earnings	\$ 0.81	\$ 0.51	\$ 0.09	\$ 0.04	\$ 0.01
Book value at year end	\$ 2.43	\$ 0.53	\$ 0.17	\$ 0.08	\$ 0.04
Average shares outstanding (000)	21,308	19,696	18,728	18,263	18,263
Statistical data:					
Gross margin	47.5%	50.5%	45.9%	45.6%	41.5%
Operating margin	26.4%	33.8%	19.7%	18.5%	7.3%
	At October 31,				
(US dollars in thousands, at year end)	1994	1993	1992	1991	1990
Working Capital	\$ 39,733	\$ 7,687	\$ 1,887	\$ 536	\$ (141)
Total assets	87,326	21,826	5,755	2,096	2,131
Long-term debt	73	30	600	—	220
Total debt	15,673	2,849	1,524	25	869
Shareholders' equity	51,821	10,365	3,187	1,460	692

Letter to Shareholders

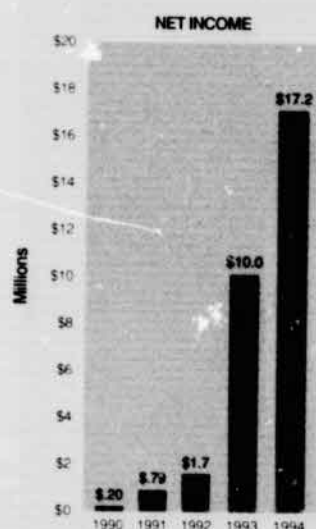


To our shareholders, customers, employees, suppliers and friends: In this, our first year as a public company we are pleased to report that fiscal year 1994 was a year of success. Sales rose 122% surpassing \$72 million while net income and earnings per share also reached record levels. Net income increased 70% to over \$17 million and per share earnings reached \$0.81. We are proud to represent the Radica employees worldwide whose dedication and hard work in 1994 once again benefitted our customers and shareholders. Despite a solid 1994 performance, we remain convinced that even greater accomplishments are forthcoming. The year 1994 was a building year for the Company. We added substantial capability throughout the organization to carry us into the future and we will be continuing that effort in the current year. We plan to continue increases in advertising and promotion, trade fixtures and displays plus service of those displays at the retail store level. We expect to expand shelf space for our current products as well as the new products being introduced this year.

Our investment in people and marketing support have placed pressure on the Company's short-term results through increases in selling, general and administrative expenses. We remain convinced that these actions will make us a formidable long-term force in the market, both in our core business and the emerging businesses of Pub Poker™ and "OEM" manufacturing.

We continue to expand our presence in foreign markets. We have established Radica Canada Limited and Radica U.K. Limited to take control of our distribution in the Canadian and United Kingdom markets. We believe this approach will provide increased sales effectiveness in these markets.

Emerging Businesses



We introduced the Pub Poker™ product in early 1995 and received an enthusiastic response from the pub, bar and tavern industry. We expect to begin placing this product in the market during the last half of fiscal 1995. The Pub Poker™ product is designed to provide entertainment to the patrons of pubs, bars and taverns by providing either tournament, individual, shared, or timed play. We believe this product may have applications in other environments such as the airline and hospitality industries and we intend to pursue these opportunities. The Pub Poker™ product is leased to the establishments on a monthly basis to provide continuing revenues. The Company expects to support the product with point-of-purchase and other promotional materials.

We are working with International Game Technology on the development of a commercial amusement/gaming machine which will be manufactured under the Original Products Manufacturing agreement. We expect to commence production of this product in our new China plant in the fall of 1995.

New Factory Facilities

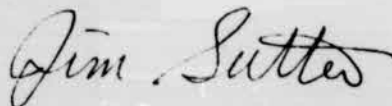
During 1994 we began construction of a 700,000 square foot manufacturing facility that will be operated under a cooperative joint venture with the local Chinese township. We expect to begin manufacturing in the new plant in May, 1995. This facility provides capacity for the Company to reduce its dependence on subcontractors and will provide the necessary space for the production of commercial amusement/gaming machines for International Game Technology.

Service Recognition

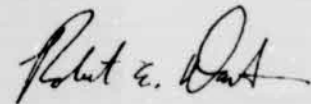
We are very pleased to receive the 1994 Vendor Award of Excellence from Target Stores. This recognition indicates to us that the people, systems and infrastructure we have put in place are meeting our high standards and continue to strengthen our relationships with our retailers.

Director Hansen Passes Away

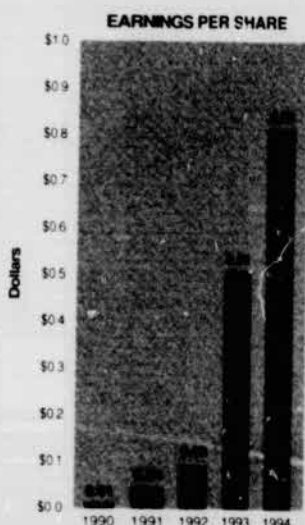
We deeply regret that John N. Hansen, a friend, Company co-founder, shareholder and member of the Company's board of directors passed away in January 1995. Mr. Hansen was the President of John N. Hansen Company, a national distributor of gift products. His presence on our board will be missed; his mature judgement and broad knowledge of our business were invaluable in our deliberations.



James J. Sutter
Chairman
March 3, 1995



Robert E. Davids
President and CEO
March 3, 1995



Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Fiscal 1994 Compared to Fiscal 1993

Net sales for the year ended October 1994 of \$72.1 million increased 122% from the \$32.5 million for the prior year. Eight new ranges of products consisting of 33 new models were introduced during the year, including a range of key-ring games, a range of 'Video' series games, a range of upscale flip lid models and the new Riverboat models, a midsize electronic table top range of games, as well as improvements to some models of existing table top games. Approximately 80% of sales related to handheld models and 20% to tabletop models in comparison to 86% and 14% respectively in fiscal 1993. During 1994, the Company sold 32 different models of handheld games, totalling 7.7 million units, compared to 8 models totalling 3.5 million units in 1993 and 24 different models of tabletop games totalling 1.6 million units, compared to 13 different models and 0.5 million units in 1993. The total number of units sold increased 128% from the 4.1 million sold in 1993.

Gross profit for the year ended October 1994 was \$34.3 million as compared to \$16.4 million for fiscal 1993, an increase of 109%. The gross margin for the year of 47.5% was down from 50.5% for fiscal 1993. This decline is due primarily to peak season inefficiencies in the fourth quarter production ramp up. To a lesser extent, the margin was impacted by the introduction of lower priced products that carry lower margins, primarily the key-ring and 'Video' series products.

Operating expenses for the year 1994 were \$15.3 million, up 182% over fiscal 1993. Operating expense increases were due primarily to increases in research and development expenditures, increases in staffing and facilities to support increased sales demand and increased variable expenses associated with the increase in sales. Research and development increased 142% over fiscal 1993 to \$1.6 million. Compensation expenses increased approximately \$2.1 million due to staff increases in Hong Kong and the U.S.A. operations to handle increased sales volumes as well as the start-up of the Mexican manufacturing operation. Commissions to outside sales representatives increased by \$3.2 million in the year ended October 1994 as a result of the Company distributing its product through Radica USA instead of using independent distributors.

Operating income for the year ended October 1994 was \$19.0 million versus \$11.0 million for the same period last year, an increase of 73%. The operating margin for the year was 26.4% compared to 33.8% for fiscal 1993 due primarily to increases in operating expenses to support increased sales volumes.

The effective blended tax rate for the year ended October 1994 was 10.2% compared to 7.9% for fiscal 1993. This is due to the fact that the effective U.S.A. tax rate of 34% has only been in effect since the Company terminated its S Corporation status on May 20, 1994 and the 8.25% effective tax rate of the operations in Hong Kong

and 0% effective tax rate of the manufacturing operation in China conducted by a British Virgin Islands subsidiary.

Net income for the year ended October 1994 was \$17.2 million, up from net income of \$10.1 million in fiscal 1993, an increase of 70%. The net income per common share in the year ended October 1994 was \$0.81 as compared to \$0.51 for fiscal 1993.

Capital Resources and Liquidity

Cash and cash equivalents totalled \$11 million at October 31, 1994, up \$6.3 million from year-end 1993. Working capital at October 31, 1994 was \$39.7 million, a \$32.1 million increase from working capital of \$7.6 million at October 31, 1993. The increase in working capital is due primarily to the increases in net income over the same period and the initial public offering of the Company's shares. The ratio of current assets to current liabilities increased to 2.1 at October 31, 1994 from 1.7 at October 31, 1993. This increase in the current ratio is also due to the increases in net income over the same period and the liquidity provided by the proceeds from the Company's initial public offering.

Short-term borrowings of \$15.5 million at October 31, 1994 were up \$12.8 million from \$2.7 million at October 31, 1993. This increase was due primarily to securing credit lines for the purchase of raw materials for the manufacturing operation to meet increased sales demand.

The Company believes that its existing cash, cash equivalents and cash generated from operations are sufficient to satisfy its current anticipated working capital needs of its core business. It is expected that additional capital will be required to fully implement a successful Pub Poker™ line of business. The Company believes it will be able to provide adequate capital through bank borrowings or public debt.

Fiscal 1993 Compared to Fiscal 1992

Net sales were \$32.5 million in fiscal 1993, an increase of \$22.7 million, or 230%, as compared with \$9.9 million in fiscal 1992. The Company sold approximately 4.1 million units in fiscal 1993, an increase of 308% over units sold in the previous year. This increase was due primarily to increased sales of the Company's handheld games, which benefitted from increases in the number of retailers and distributors selling such products and in the number selling such products throughout the year as opposed to only during traditional gift seasons. Sales were also favorably affected by the inclusion of a full year's sales of products introduced during fiscal 1992 and an increase in the number of different models offered to retailers and distributors in fiscal 1993. A number of large retailers began selling the Company's products in fiscal 1993, particularly in the second half. Net sales benefitted from the Company's strategy to sell more products directly to retailers through Radica USA rather than through distributors, as such sales are generally made at more favorable margins.

Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

Existing products, primarily handheld poker and blackjack games, accounted for approximately 60% of the increase in net sales during fiscal 1993, while new products, primarily handheld slot and keno games, accounted for approximately 40% of the increase in net sales. Sales of handheld games increased to approximately 3.5 million units in fiscal 1993, an increase of over fourfold, and accounted for 86.4% of net sales, up from 67.2% of net sales in fiscal 1992. Sales of tabletop games increased to approximately 550,000 units in fiscal 1993, an increase of over 60% from fiscal 1992, and accounted for 13.2% of net sales. The shift in product mix from tabletop games to handheld games was due mainly to the strong demand for handheld games from retailers.

Gross profit was \$16.4 million in fiscal 1993, an increase of \$11.9 million, or 263%, as compared with \$4.5 million in fiscal 1992. The gross margin improved to 50.5% from 45.9%, due primarily to increased sales by Radica USA directly to retailers. Excluding the effect of such Radica USA sales, the gross margin of the Company remained approximately the same. Lower labor costs at the Tai Ping Factory, cost saving design improvements to products and improved prices from suppliers due to increased volume purchases were offset by increased volume purchases of the Company's products by retailers and distributors at lower prices.

Operating expenses were \$5.4 million in fiscal 1993, an increase of \$2.8 million, or 110%, as compared with \$2.6 million in fiscal 1992. The increase in operating expenses was due primarily to an increase in selling, general and administrative expenses to \$4.8 million as compared with \$2.4 million in the previous year. This increase included, among other things, an increase in salaries and compensation to \$1.5 million in fiscal 1993 from approximately \$644,000 in fiscal 1992, reflecting an increase in the number of salaried employees in the Company, an increase in sales commissions paid to sales representatives to approximately \$556,000 in fiscal 1993 from approximately \$26,000 in fiscal 1992, due principally to increased reliance on sales representatives for sales through Radica USA and an increase in freight and insurance to approximately \$284,000 in fiscal 1993 from approximately \$65,000 in fiscal 1992 due to increased sales volume. Research and development expenses increased over 300% to approximately \$652,000, or 2.0% of net sales, compared to approximately \$158,000, or 1.6% of net sales, in the previous year, reflecting the Company's increased product development efforts. Operating expenses as a percentage of net sales decreased to 16.7% in fiscal 1993 from 26.2% in fiscal 1992, reflecting economies of scale and a lag in the buildup of selling, general and administrative expenses arising from the rapid increase in sales volume.

As a result of these factors, operating income was \$11.0 million in fiscal 1993, an increase of \$9.1 million, or 467%, as compared with \$1.9 million in fiscal 1992 and the operating margin improved to 33.8% from 19.7%. The Company's pro forma effective income tax rate was 7.97% in fiscal 1993, compared to 9.87% in fiscal 1992. Net income was \$10.1 million in fiscal 1993, an increase of \$8.4 million, or 489%, as compared with \$1.7 million in fiscal 1992.

Fiscal 1992 Compared to Fiscal 1991

Net sales were \$9.9 million in fiscal 1992, an increase of \$4.7 million, or 91%, as compared with \$5.2 million in fiscal 1991. The Company sold 992,000 units in fiscal 1992, an increase of 90.4% over units sold in the previous year. New products accounted for most of the increase in net sales in fiscal 1992 while net sales of existing and improved products accounted for only 16.2% of the increase in net sales over the previous year. New products included a smaller, less expensive, one-player handheld poker game, handheld blackjack games and an improved version of the two-player handheld poker game. Increased net sales also reflected an increase in the number of retailers and distributors selling the Company's product.

New products accounted for approximately 80% of the increase in net sales during fiscal 1992 while existing products accounted for approximately 20% of the increase in net sales. Sales of handheld games increased more than fourfold in fiscal 1992 to approximately 659,000 units and accounted for 67.2% of net sales up from 28.7% of net sales in the previous year. Sales of tabletop games, however, decreased to approximately 333,000 units, down 14.8% from fiscal 1991, and accounted for 32.8% of net sales. The shift in product mix from tabletop games to handheld games was due mainly to the strong demand for handheld games from retailers and was due in part to a decline in sales of tabletop mechanical models.

Gross profit was \$4.5 million in fiscal 1992, an increase of \$2.1 million, or 92%, as compared with \$2.4 million in fiscal 1991. The gross margin remained relatively stable at 45.9% compared to 45.6% for the previous year. Lower direct labor cost resulting from moving production from Hong Kong to the Tai Ping Factory in February 1992 was offset by initial production inefficiencies in commencing operations at, and write-offs incurred in connection with the move to, the Tai Ping Factory.

Operating expenses were \$2.6 million in fiscal 1992, an increase of \$1.2 million, or 84.4%, as compared with \$1.4 million in fiscal 1991, due primarily to an increase in selling, general and administrative expenses, including expenses related to moving production from Hong Kong to the Tai Ping Factory. However, operating expenses as a percentage of net sales decreased to 26.2% in fiscal 1992 from 27.1% in 1991, as a result of economies of scale arising from the increase in sales volume.

As a result of these factors, operating income was \$1.9 million in fiscal 1992, an increase of \$1.0 million, or 104%, as compared with \$953,000 in fiscal 1991 and the operating margin improved to 19.7% from 18.5%. The Company's effective pro forma income tax rate declined to 9.5% in fiscal 1992, as compared with 16.5% in fiscal 1991, primarily due to moving the Company's production activities to the Tai Ping Factory in southern China, after which 50% of Radica Hong Kong's income has been apportioned as not subject to Hong Kong income tax. Net income increased to \$1.7 million in fiscal 1992, an increase of \$944,000, or 123%, as compared with \$768,000 in fiscal 1991.

onsolidated Balance Sheets

At October 31,

(US dollars in thousands, except share data)

1994

1993

Assets

Current assets:

Cash and cash equivalents	\$ 11,038	\$ 4,698
Short-term investments (Note 3)	3,230	—
Accounts receivable, net of allowance for doubtful accounts of \$96 in 1994 and \$5 in 1993 and estimated customer returns of \$138 in 1994 and \$64 in 1993	25,977	5,586
Inventories (Note 4)	33,222	6,459
Prepaid expenses and other current assets	1,698	158
Receivables from related parties (Note 5)	—	2,175

Total current assets	75,165	19,076
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Property, plant and equipment — net (Note 6)	11,731	2,582
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Deferred income taxes (Note 7)	188	42
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Other assets	242	126
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Total assets	\$ 87,326	\$ 21,826
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Liabilities and Shareholders' Equity

Current liabilities:

Short-term borrowings (Note 8)	\$ 15,473	\$ 2,743
Current portion of long-term debt (Note 9)	127	76
Accounts payable	10,401	3,666
Note payable (Note 10)	3,000	—
Accrued payroll and employee benefits	355	144
Accrued expenses	3,926	757
Income taxes payable	2,150	1,020
Distributions payable to shareholders	—	3,025

Total current liabilities	35,432	11,431
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Long-term debt (Note 9)	73	30
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Shareholders' equity:

Common stock, par value \$0.01 each, 100,000,000 shares authorized, 22,780,000 shares outstanding in 1994 (Note 11)	228	20
Additional paid-in capital	28,129	157
Retained earnings	23,443	10,167
Cumulative translation adjustment	21	21

Total shareholders' equity	51,821	10,365
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Total liabilities and shareholders' equity	\$ 87,326	\$ 21,826
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onsolidated Statements of Income

	Year ended October 31,		
(US dollars in thousands, except per share data)	1994	1993	1992
Net sales:			
Net sales to unaffiliated customers	\$ 69,757	\$ 25,050	\$ 8,434
Net sales to related parties	2,335	7,455	1,419
Total net sales	72,092	32,505	9,853
Cost of sales	37,823	16,085	5,334
Gross profit	34,269	16,420	4,519
Operating expenses:			
Selling, general and administrative expenses	13,677	4,766	2,422
Research and development	1,577	652	158
Total operating expenses	15,254	5,418	2,580
Operating income	19,015	11,002	1,939
Interest income (expense), net	95	(65)	(41)
Income before income taxes	19,110	10,937	1,898
Income taxes (Note 7)	1,950	860	186
Net income	\$ 17,160	\$ 10,077	\$ 1,712
Earnings per common share	\$ 0.81	\$ 0.51	\$ 0.09
Weighted average number of shares outstanding ...	21,308,000	19,696,000	18,728,000

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

(US dollars in thousands)	Common stock		Additional paid-in capital	Retained earnings	Cumulative translation adjustment	Total share- holders equity
	Number of shares	Amount				
Balance at November 1, 1991	18,000	\$ 18	\$ —	\$ 1,442	\$ —	\$ 1,460
Issue of shares	1,245	1	14	—	—	15
Net income	—	—	—	1,712	—	1,712
Balance at October 31, 1992	19,245	19	14	3,154	—	3,187
Issue of shares	752	1	143	—	—	144
Net income	—	—	—	10,077	—	10,077
Translation adjustment	—	—	—	—	21	21
Dividends	—	—	—	(3,064)	—	(3,064)
Balance at October 31, 1993	19,997	20	157	10,167	21	10,365
Issue of shares:						
1,000-for-one common stock split (Note 13)	19,977,003	180	—	(180)	—	—
Public offering	2,783,000	28	27,796	—	—	27,824
Grant of stock option	—	—	176	—	—	176
Net income	—	—	—	17,160	—	17,160
Dividends	—	—	—	(3,704)	—	(3,704)
Balance at October 31, 1994	22,780,000	\$ 228	\$ 28,129	\$ 23,443	\$ 21	\$ 51,821

onsolidated Statements of Cash Flows

Year ended October 31,

(US dollars in thousands)	1994	1993	1992
Cash flow from operating activities:			
Net income	\$ 17,160	\$ 10,077	\$ 1,712
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	(146)	(119)	—
Depreciation and amortization	839	374	301
Loss on disposal of property, plant and equipment	—	72	58
Provision for compensation expense related to stock options	176	—	—
Changes in assets and liabilities:			
Accounts receivable	(20,391)	(5,181)	(152)
Inventories	(26,763)	(4,614)	(1,516)
Prepaid expenses and other current assets	(1,540)	(67)	39
Receivables from related parties	2,175	(1,822)	(250)
Accounts payable	6,735	3,244	152
Accrued payroll and employee benefits	211	86	13
Accrued expenses	3,169	579	88
Income taxes payable	1,130	711	181
Net cash (used in) provided by operating activities	(17,245)	3,340	626
Cash flow from investing activities:			
Proceeds from sale of property, plant and equipment	—	26	1
Purchase of property, plant and equipment	(9,743)	(977)	(1,262)
Purchase of short-term investments	(3,230)	—	—
Increase in other assets	(167)	—	—
Net cash used in investing activities	(13,140)	(951)	(1,261)
Cash flow from financing activities:			
Note payable	3,000	—	—
Dividends paid	(6,729)	(39)	—
Issue of common stock, net	27,824	144	15
Increase in short-term borrowings	12,730	2,302	820
Repayments of short-term borrowings	—	(404)	—
Increase in long-term debt	—	—	641
Repayment of long-term debt	(100)	(792)	(18)
Net cash provided by financing activities	36,725	1,211	1,458
Effect of changes in exchange rates	—	14	—
Net increase in cash and cash equivalents	6,340	3,614	823
Cash and cash equivalents:			
Beginning of year	4,698	1,084	261
End of year	\$ 11,038	\$ 4,698	\$ 1,084
Supplementary disclosures of cash flow information:			
Cash paid during the period for:			
Interest	\$ 256	\$ 117	\$ 59
Income taxes	966	197	2
Non-cash transactions:			
Property, plant and equipment acquired under capital leases	194	215	56

See accompanying notes to consolidated financial statements.

otes to the Consolidated Financial Statements

(US dollars in thousands)

1. Organization and Basis of Financial Statements

On December 21, 1993 and on May 13, 1994, respectively, Radica Games Limited ("Radica Games"), a Bermuda company incorporated on December 21, 1993, became the holding company of Radica Limited ("Radica HK"), a company incorporated in Hong Kong and Radica Enterprises, Ltd. ("Radica USA"), a company incorporated in the United States of America, through the exchange of common stock of Radica Games for all the common shares of Radica HK and Radica USA (the "Reorganization"). Radica Games and its subsidiaries are collectively referred to as the Company.

Because Radica HK and Radica USA have been under common control since their formation, the financial statements have been prepared to reflect the financial position, results of operations and cash flows of the Company as if the structure of the Company resulting from the above transactions had been in existence, for all the periods presented, in a manner similar to the pooling-of-interests method.

All significant intra-group transactions and balances have been eliminated on consolidation.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and are presented in U.S. dollars as the Company's sales are predominantly denominated in U.S. dollars.

2. Summary of Significant Accounting Policies

Cash and cash equivalents—Cash and cash equivalents include cash on hand, cash accounts, interest-bearing savings accounts, and time certificates of deposit with a maturity at purchase date of three months or less.

Inventories—Inventories are stated at the lower of cost, determined by the weighted average method, or market.

Depreciation and amortization of property, plant and equipment—Depreciation is provided on the straight line method at rates based upon the estimated useful lives of the property, generally not more than seven years except for leasehold land and buildings which are 50 years, the term of the lease. Costs of leasehold improvements are amortized over the life of the related asset or the term of the lease, whichever is shorter. No depreciation and amortization is provided for construction-in-progress until it is put into use.

Revenue recognition—Revenues are recognized as sales when merchandise is shipped. The Company permits the return of damaged or defective products and accepts limited amounts of product returns in certain other instances. Accordingly, the Company provides allowances for the estimated amounts of these returns at the time of revenue recognition, based on historical experience adjusted for known trends.

(US dollars in thousands)

Income taxes—Certain items are treated differently for financial reporting purposes than for income tax purposes. Pursuant to the provision of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," deferred income taxes are provided, under the liability method, in recognition of these temporary differences, using the tax rates expected to be in effect when the related temporary differences reverse.

Foreign currency translation—Assets and liabilities of foreign operations are translated using year-end exchange rates. Revenues and expenses of foreign operations are translated using average monthly exchange rates. The impact of exchange rate changes is shown as "Cumulative Translation Adjustment" in shareholders' equity. Net losses from foreign exchange transactions of \$470, \$129 and \$79 in 1994, 1993 and 1992 respectively, are included in selling, general and administrative expenses.

Post-retirement and post-employment benefits—The Company does not provide post-retirement benefits to employees and post-employment benefits are immaterial.

Warranty—Future warranty costs are provided for at the time of revenue recognition based on the management's estimate by reference to historical experience adjusted for known trends.

3. Short-term Investments

At October 31, 1994, the Company had an investment in a pre-refunded tax-free municipal bond of \$3,000 which is scheduled to mature in August 1995.

4. Inventories

Inventories by major categories are summarized as follows:

	<u>At October 31,</u>	
	<u>1994</u>	<u>1993</u>
Raw materials	\$11,205	\$3,431
Work in progress	4,171	470
Finished goods	17,846	2,558
	<u>\$33,222</u>	<u>\$6,459</u>

otes to the Consolidated Financial Statements (continued)

(US dollars in thousands)

5. Related Party Transactions

During the year, the Company sold products to John N. Hansen Company, Inc., and Rahn Sales Company, Inc. on the same terms as other customers. John N. Hansen, a shareholder of the Company, had a controlling interest in both of these companies. Since April 1994, the Company has not sold products to these companies.

Disc, Inc. ("Disc") provides design services to the Company, fees for such services being equal to the expenditures incurred by Disc plus 4%. Robert E. Davids, a shareholder of the Company, had a controlling interest in Disc which was acquired by the Company on May 20, 1994 for cash of \$111 which represented the fair value of net tangible assets acquired. Accordingly, all transactions subsequent to that date have been eliminated on consolidation.

The following table summarizes the transactions between the Company and the related companies:

	<u>Year ended October 31,</u>		
	<u>1994</u>	<u>1993</u>	<u>1992</u>
John N. Hansen Company, Inc.			
Sales to	\$ 2,257	\$ 7,189	\$ 999
Interest/banking commitment fee paid	—	70	146
Borrowings from	—	115	115
Repayment of a loan from ..	—	115	115
Rahn Sales Company, Inc.			
Sales to	78	266	420
Disc, Inc.			
Design fees paid	289	345	55

There were no balances with related companies at October 31, 1994. At October 31, 1993, the Company had receivables from John N. Hansen Company, Inc. and Disc, Inc. of \$2,152 and \$23, respectively.

6. Property, Plant and Equipment

Property, plant and equipment consists of the following:

	<u>At October 31,</u>	
	<u>1994</u>	<u>1993</u>
Land and buildings	\$ 5,663	\$ 1,202
Plant and machinery	3,269	1,522
Furniture and equipment	1,872	527
Leasehold improvements	504	211
Construction-in-progress	2,091	—
Total	<u>\$ 13,399</u>	<u>\$ 3,462</u>
Less: Accumulated depreciation and amortization	<u>(1,668)</u>	<u>(880)</u>
Total	<u>\$ 11,731</u>	<u>\$ 2,582</u>

Additions, disposals and depreciation and amortization of property and equipment for each of the three years in the period ended October 31, 1994 are as follows:

	<u>Year ended October 31,</u>		
	<u>1994</u>	<u>1993</u>	<u>1992</u>
Additions	\$ 9,937	\$ 1,192	\$ 1,318
Disposals — net book value	—	98	59
Depreciation and amortization	788	325	252

Included in property and equipment are assets acquired under capital leases with the following net book values:

	<u>At October 31,</u>	
	<u>1994</u>	<u>1993</u>
At cost:		
Plant and machinery	\$ 493	\$ 215
Less: Accumulated amortization	<u>(87)</u>	<u>(27)</u>
	<u>\$ 406</u>	<u>\$ 188</u>

Amortization of capital lease assets, which is included in depreciation and amortization expense in the accompanying statements of income, was \$60, \$27 and \$3 for the years ended October 31, 1994, 1993 and 1992, respectively.

otes to the Consolidated Financial Statements (continued)

(US dollars in thousands)

7. Income Taxes

The components of income before income taxes are as follows:

	<u>Year ended October 31,</u>		
	<u>1994</u>	<u>1993</u>	<u>1992</u>
United States	\$ 4,986	\$ 1,582	\$ 96
Foreign subsidiaries operating in:			
People's Republic of China	6,562	—	—
Hong Kong	7,562	9,355	1,802
	<u>\$ 19,110</u>	<u>\$ 10,937</u>	<u>\$ 1,898</u>

In accordance with the Hong Kong Inland Revenue Departmental Interpretation and Practice Note No. 21, since Radica HK income resulted from manufacturing operations carried out in the People's Republic of China ("PRC") under a processing arrangement, in providing for Hong Kong income tax, 50% of this income has been apportioned as not subject to Hong Kong income tax. During 1994, the Company's manufacturing operations were transferred to a wholly-owned subsidiary operating in the PRC.

Under the existing processing arrangement and in accordance with the current tax regulations in the PRC, the manufacturing income generated in the PRC is not subject to PRC taxes.

Income continuing to be generated from activities in Hong Kong is subject to Hong Kong income tax at the normal statutory rate.

The provision for income taxes consists of the following:

	<u>Year ended October 31,</u>		
	<u>1994</u>	<u>1993</u>	<u>1992</u>
Hong Kong			
Current	\$722	\$908	\$182
Deferred	113	(119)	—
	<u>\$ 835</u>	<u>\$ 789</u>	<u>\$ 182</u>
United States			
Federal income taxes	\$ 1,225	—	—
State income taxes	149	71	4
Deferred	(259)	—	—
	<u>\$ 1,950</u>	<u>\$ 860</u>	<u>\$ 186</u>

(US dollars in thousands)

Prior to its Reorganization in May 20, 1994, Radica USA, the Company's principal operating subsidiary in the United States, had elected to be treated as a S Corporation for U.S. Federal income tax purposes. As part of the reorganization the S Corporation Status of Radica USA was terminated and subsequently, its income has been subject to Federal income tax. Pro forma information of historic income adjusted to reflect a provision for U.S. Federal income taxes for Radica USA at the following effective rates is set out below:

Year ended October, 1994	34%
Year ended October, 1993	34%
Year ended October, 1992	21%

	<u>Year ended October 31,</u>		
	<u>1994</u>	<u>1993</u>	<u>1992</u>
Historical income before income taxes	\$ 19,110	\$ 10,937	\$ 1,898
Pro forma income taxes	<u>2,633</u>	<u>1,374</u>	<u>205</u>
	<u>\$ 16,477</u>	<u>\$ 9,563</u>	<u>\$ 1,693</u>

A reconciliation between the provision for income taxes computed by applying the statutory tax rates in the United States for 1994, 1993 and 1992 to income before taxes and the actual provision for income taxes is as follows:

	<u>Year ended October 31,</u>		
	<u>1994</u>	<u>1993</u>	<u>1992</u>
U.S. statutory rate	<u>34%</u>	<u>34%</u>	<u>21%</u>
Provision for income taxes at statutory rate on income for the period	\$ 6,497	\$ 3,719	\$ 399
State income taxes	149	71	4
International rate differences	(1,323)	(1,544)	(63)
Income not subject to taxation	(3,589)	(1,356)	(178)
Other	<u>216</u>	<u>(30)</u>	<u>24</u>
Income tax provision	<u>\$ 1,950</u>	<u>\$ 860</u>	<u>\$ 186</u>

Deferred income taxes reflect the net tax effect of deductible temporary differences between the amounts of assets and liabilities for income tax purposes compared with the respective amounts for financial statement purposes. At October 31, 1994 and 1993 deferred income taxes comprised:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(US dollars in thousands)

	At October 31,	
	1994	1993
Deferred tax assets (liabilities):		
Excess of tax over financial reporting depreciation	\$ (71)	\$ (70)
Intercompany profit	—	112
Advertising allowances	130	—
Other, net	129	—
	<u>\$ 188</u>	<u>\$ 42</u>

Management believes that no valuation allowance against the net deferred tax asset is necessary.

8. Short-term Borrowings

These include borrowings in the form of trade acceptances, and overdrafts with various banks.

	Year ended October 31,		
	1994	1993	1992
Credit facilities available at end of year	\$ 23,484	\$ 5,394	\$ 2,282
Utilized at end of year	14,383	2,743	845
Weighted average interest rate on borrowings at end of year	10.1%	7.6%	7.6%

Interest rates are generally based on the banks' prime rates.

9. Long-term Debt

The long-term debt consists of capital lease obligations which at October 31, 1994 bore interest at 13.35% to 13.80% per annum. The amount payable in the next financial year is included in current liabilities.

Maturities of long-term debt as of October 31, 1994 are as follows:

Year ending October 31,	
1995	\$127
1996	73
Total	<u>\$200</u>

(US dollars in thousands)

10. Note Payable

At October 31, 1994, the Company had a note payable for \$3,000 which matures on February 25, 1995 and accrues interest at 6.06% payable on maturity.

11. Common Stock

The comparative figures represent the combined total of the nominal value of the issued common stock of Radica HK and Radica USA. The Board of Directors authorized a nine-for-one stock dividend and a subsequent 100-for-one stock split (together effectively a 1,000-for-one stock split) effective as of May 6, 1994. Earnings per common share data have been retroactively restated to give effect to these transactions.

12. Stock Options

The Company's 1994 Stock Option Plan (the "Stock Option Plan") provides for options to be granted for the purchase of an aggregate of 1,600,000 shares of common stock at per share prices not less than 100% of the fair market value at the date of grant as determined by the Compensation Committee of the Board of Directors. Options under this plan are generally exercisable ratably over five years from the date of grant unless otherwise provided.

In December 1993, an officer was granted an option under his employment agreement to purchase 188,000 shares of common stock of Radica Games at an exercise price of \$0.567 per share and 1,136,000 options were granted during fiscal 1994 under the Stock Option Plan to purchase Company's shares at exercise prices ranging from \$8.50 to \$8.53 per share. Twenty percent of the stock options vest and become exercisable on each of the first five anniversaries of the date of grant and all of the options expire in ten years. At the balance sheet date, all options granted were outstanding.

13. Off-Balance-Sheet Risk and Concentrations of Credit Risk and Major Customers

Trade receivables of the Company are subject to a concentration of credit risk with customers in the retail sector. This risk is limited due to the large number of customers composing the Company's customer base and their geographic dispersion, though the Company has two customers which accounted for more than twelve and fourteen percent of net sales in 1994 and had a customer which

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(US dollars in thousands)

accounted for more than thirteen percent of net sales in 1993. In 1992 the Company's two largest customers accounted for more than eleven and twenty-one percent of net sales. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers. In addition, approximately 30% of the trade receivable balance as of October 31, 1994, is covered by letters of credit.

14. Estimated Fair Value of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of the Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments." The estimated fair value amounts have been determined by the Company, using available market information and appropriate valuation methodologies. The estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

The carrying amounts of cash and short-term investment, accounts receivable, accounts payable and note payable are reasonable estimates of their fair value.

At October 31, 1994, the Company has letters of credit outstanding totalling \$13,352 which guarantee various trade activities. The contract amount of the letters of credit is a reasonable estimate of the fair value since the value for each is fixed over the life of the commitment.

15. Commitments and Contingencies

The Company leases premises under various operating leases, many of which contain renewal options. Rental expense under operating leases was \$214, \$216 and \$249 in 1994, 1993 and 1992, respectively.

At October 31, 1994, the Company was obligated under capital leases and operating leases requiring minimum rentals as follows:

	Capital leases	Operating leases
1995	\$ 167	\$ 320
1996	83	167
1997	—	152
1998	—	98
Total minimum lease payments	\$ 250	\$ 737
Less: amount representing interest	50	
Present value of minimum lease payments	\$ 200	

(US dollars in thousands)

At October 31, 1994, certain leasehold land and buildings with a net book value of \$3,812 and bank balances of \$9,419 were pledged to secure general banking facilities including overdraft and trade facilities granted to the Company. The note payable was collateralized by the short-term investment of \$3,000.

At October 31, 1994, the Company has commitments to expend approximately \$2,000 to complete construction-in-progress in the PRC which is expected to be disbursed during the year ending October 31, 1995.

16. Retirement Plan

In 1993, the Company established a defined contribution retirement plan covering substantially all employees in Hong Kong. Under this plan, eligible employees may contribute amounts through payroll deductions which are not more than 5% of individual salary, supplemented by employer contributions ranging from 5% to 10% of individual salary depending on the years of service. The expense related to this plan was \$49 and \$40 for 1994 and 1993, respectively.

17. Segment Information

The Company operates in one principal industry segment: the design, development, manufacturing and distribution of a variety of non-gambling casino theme games. Over 90% of the Company's products are sold in the United States. Geographic financial information is as follows:

	<u>1994</u>	<u>1993</u>	<u>1992</u>
Net sales:			
United States	\$ 62,507	\$ 12,140	\$ 935
PRC and Hong Kong	<u>9,585</u>	<u>20,365</u>	<u>8,918</u>
	<u>\$ 72,092</u>	<u>\$ 32,505</u>	<u>\$ 9,853</u>
Operating income:			
United States	\$ 5,005	\$ 1,582	\$ 96
PRC and Hong Kong	<u>14,010</u>	<u>9,420</u>	<u>1,843</u>
	<u>\$ 19,015</u>	<u>\$ 11,002</u>	<u>\$ 1,939</u>
Identifiable assets:			
United States	\$ 35,021	\$ 6,407	\$ 236
PRC and Hong Kong	<u>52,305</u>	<u>15,419</u>	<u>5,519</u>
	<u>\$ 87,326</u>	<u>\$ 21,826</u>	<u>\$ 5,755</u>

A significant portion of PRC and Hong Kong net sales are export sales to the United States.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

(US dollars in thousands)

18. Litigation

Ten purported class actions filed in various United States District Courts against the Company, various of its officers and directors, and the managing underwriters of the Company's initial public offering have been consolidated in the United States District Court for the District of Nevada under the caption In re Radica Games Limited Securities Litigation, Master File No. CV-S-94-00653-PMP (LRI). Plaintiffs filed a consolidated complaint on November 4, 1994 that superseded all the complaints in the individual actions.

The named plaintiffs seek to represent a class consisting of purchasers of the Company's common stock in the initial public offering or in the open market from May 13 through July 22, 1994. The plaintiffs seek unquantified monetary damages and other relief against the defendants for alleged violations of Sections 11, 12(2), and 15 of the Securities Act of 1933, Sections 10b (and Rule 10b-5 thereunder), 20(a), and 20A(a) of the Securities Exchange Act of 1934, Sections 90.570, 90.660 and 660.4 of the Nevada Revised Statutes, and the common law of Nevada relating to the Company's registration statement and other public disclosures.

The Company believes the plaintiffs' allegations are without merit and intends to defend these lawsuits vigorously.

19. Subsequent Events

In November 1994, the Company obtained a credit facility for \$6,000 which expires on May 10, 1995. Interest on this facility will accrue at prime rate based upon the outstanding balance during each month. The credit facility is collateralized by (a) all accounts, documents, instruments, chattel paper and general intangibles and (b) all inventory whether now owned or hereafter acquired and all accessories thereto and all products and proceeds thereof.

20. Selected Quarterly Financial Data (unaudited)

	<u>Quarter Ended</u>			
	<u>Jan. 31</u>	<u>April 30</u>	<u>July 31</u>	<u>Oct. 31</u>
<u>Fiscal 1994</u>				
Net sales	\$ 12,357	\$ 11,324	\$ 14,669	\$ 33,742
Gross profit	6,695	5,803	7,834	13,938
Net income	3,775	2,695	2,455	8,237
Net income per share	—	—	0.11	0.36
Pro forma	3,434	2,353	—	—

RADICA GAMES LTD

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SIC 3944

NMS

SEC # 0-23696

FOR 03/01/95

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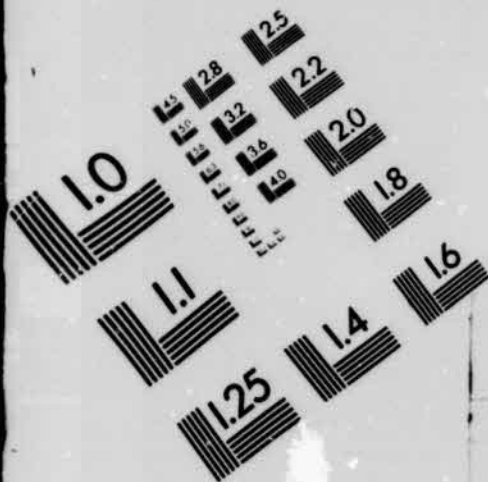
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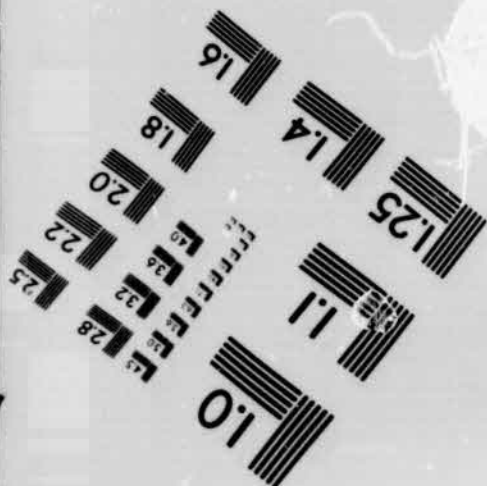
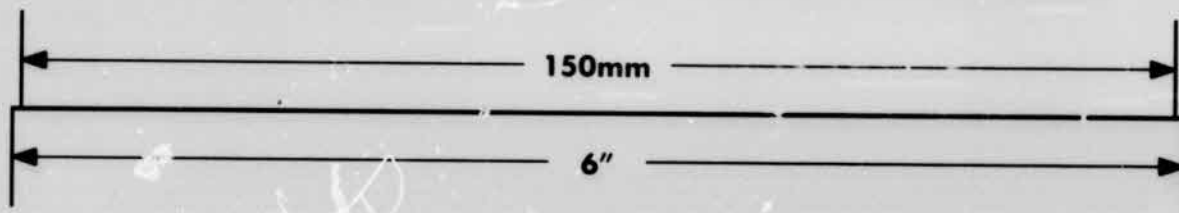
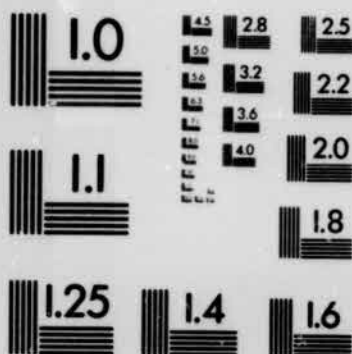
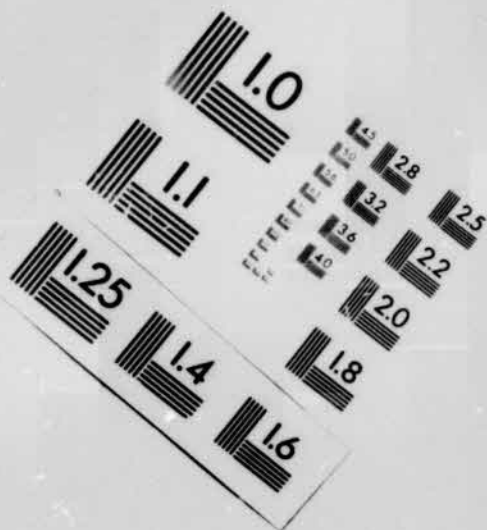
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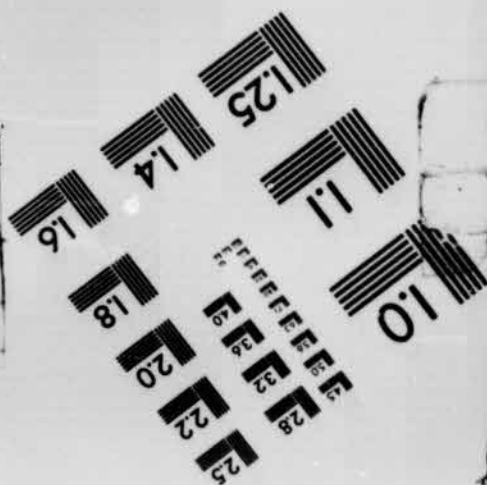
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Information Services, Inc.



disclosure.
Information services, Inc.
5161 River Road-Bethesda, MD 20816



(US dollars in thousands)

	<u>Quarter Ended</u>			
	<u>Jan. 31</u>	<u>April 30</u>	<u>July 31</u>	<u>Oct. 31</u>
<u>Fiscal 1993</u>				
Net sales	\$ 1,397	\$ 4,069	\$ 9,534	\$ 17,505
Gross profit	680	2,111	4,496	9,133
Net income	(146)	926	2,937	5,893
Net income per share	—	—	—	0.29

Common Share Price

1994 Quarter

	<u>High</u>	<u>Low</u>
Fourth	\$ 7	\$ 4 3/4
Third	11 1/2	4 5/8

Prior to the Company's initial public offering of Common Shares, which commenced on May 13, 1994, there was no public market for the Company's Ordinary shares. The initial offering price was \$11. On October 31, 1994, the closing price was \$5 11/16.

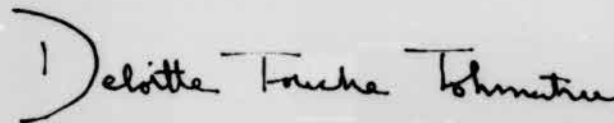
The Company had not previously paid any dividends since its initial public offering except that Radica USA had paid \$3,704 to its then existing shareholders all of its previously earned and undistributed taxable S Corporation earnings upon termination of its S Corporation status.

Independent Auditor's Report**To the Shareholders and Directors of Radica Games Limited**

We have audited the accompanying consolidated balance sheets of Radica Games Limited and subsidiaries as of October 31, 1994 and 1993, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended October 31, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Radica Games Limited and subsidiaries as of October 31, 1994 and 1993, and the results of its operations and its cash flows for each of the three years in the period ended October 31, 1994, in conformity with accounting principles generally accepted in the United States of America.



HONG KONG
December 16, 1994

Common Stock Data

As of January 20, 1995, there were approximately 105 record holders of the company's common stock. The Company believes that this represents more than 1,000 individual shareholders.

Price Range of Common Stock

<u>Fiscal Year and Quarter</u>	<u>High</u>	<u>Low</u>
1995		
First Quarter	\$ 7	\$ 4 3/4
1994		
Third Quarter	\$ 11 1/2	\$ 4 5/8
Fourth Quarter	\$ 7	\$ 4 3/4

The Company's common shares have been traded on the Nasdaq National Market System since May 13, 1994. Prior to that time, the Company's securities were privately held. The Company's symbol for its common shares is "RADAF."

The Company has not declared any dividends since it became public.

Board of Directors and Officers of the Company and Primary Subsidiaries

Directors and Officers

James J. Sutter

Robert E. Davids

Jon N. Bengtson

David C.W. Howell

Lam Siu Wing

John N. Hansen ⁽³⁾

Calvin A.H. Waller ⁽¹⁾⁽²⁾

Robert Townsend ⁽¹⁾⁽²⁾ ●

James O'Toole ⁽¹⁾⁽²⁾ ◆

Raymond D. Pike ⁽¹⁾⁽²⁾

Chairman

President and Chief Executive Officer

Executive Vice President and
Chief Financial Officer

Vice President and Chief Accounting Officer

Vice President-Engineering

President, John N. Hansen Company

Senior Vice President, ICF Kaiser Industries

Retired CEO of Avis

Vice President, Aspen Institute

Executive Vice President,
International Game Technology

Senior Management

Graham Cotton

William Newhams

Michael Pikett

Chris Dingley

James Hopkins

Charles Schrieber

Vice President Sales,
Radica Enterprises, Ltd.

Vice President Finance,
Radica Enterprises, Ltd.

President,
Radica Canada Limited

General Manager,
Radica UK Limited

General Manager,
Radmex

Chief Engineer,
Disc Inc.

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

(3) Mr. Hansen served as a director of the Company from June 1994 until his death in January 1995.

● Chairman of the Compensation Committee.

◆ Chairman of the Audit Committee.

Annual Meeting

The Annual Meeting of Shareholders will be held at 10:00 a.m. on Monday, April 3, 1995 at the Holiday Emerald Springs, 325 East Flamingo Road, Las Vegas, Nevada 89109

Independent Accountants

Deloitte Touche Tomahtsu
20th Floor, Wing on Centre
111 Connaught Road, Central Hong Kong

Transfer Agent and Registrar

U.S. Stock Transfer Corporation
1745 Gardena Avenue
Glendale, California 91204

Corporate Counsel

Sullivan & Cromwell
444 So. Flower Street, Suite 1200
Los Angeles, California 90071

Copy of Form 20-F

A copy of the Company's annual report on Form 20-F as filed with the Securities and Exchange Commission, without exhibits, may be obtained without charge by any shareholder upon written request to Investor Relations at:

Radica Enterprises, Ltd.
5301 Longley Lane, Suite 157
Reno, Nevada 89511-1806

Investor Information (continued)**Corporate Offices****Radica Games Limited**

Suite R, 6/Fl. 2-12 Au Pui Wan St.
Fo Tan, Hong Kong

Radica Enterprises, Ltd.

13628-A Beta Road
Dallas, Texas 75244

5250 West Ali Baba Street
Suite G
Las Vegas, Nevada 89119

5301 Longley Lane, Suite 157
Reno, Nevada 89511-1806

Radica Canada Limited

6535 Millcreek Drive, Suite 6
Mississauga, Ontario L5N2M2

Radica UK Limited

173 Shelford Road
Cambridge CB22ND
U.K.

Radmex SA de CV

Fray Marcos de Niza #100
Cd. Juarez, Chihuahua
Mexico

Disc Inc.

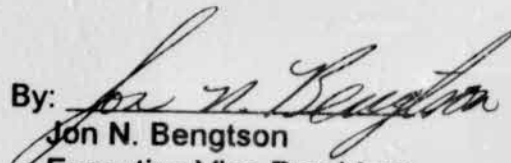
5301 Longley Lane, Suite 157
Reno, Nevada 89511-1806

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RADICA GAMES LIMITED
(Registrant)

Date: March 13, 1995

By:


Jon N. Bengtson
Executive Vice President
Chief Financial Officer

FILMED

MARCH 1995

DISCLOSURE®

Information Services, Inc.

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RADICA GAMES LTD

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SEC # 0-23696

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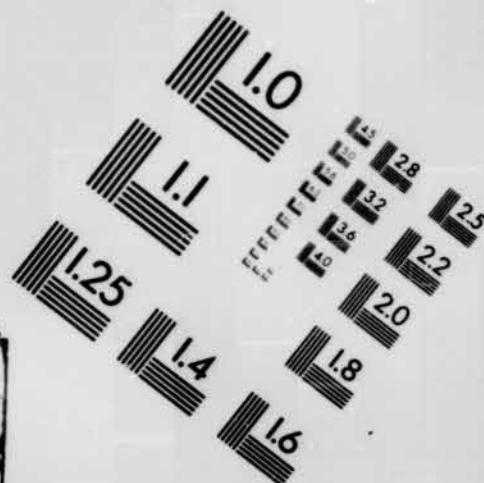
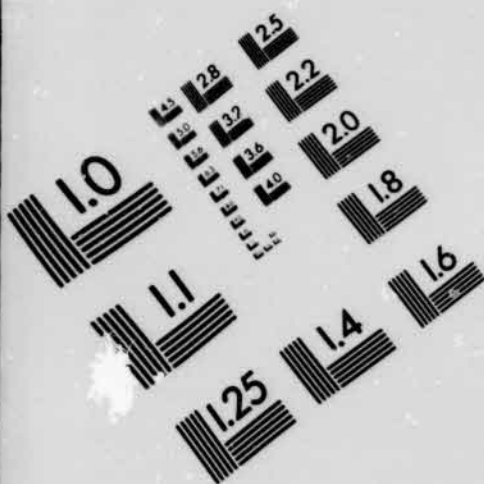
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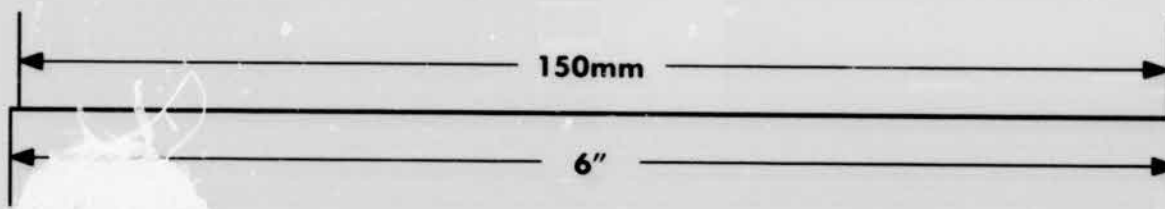
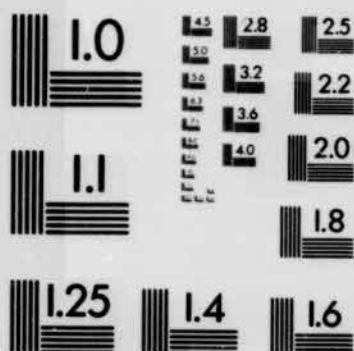
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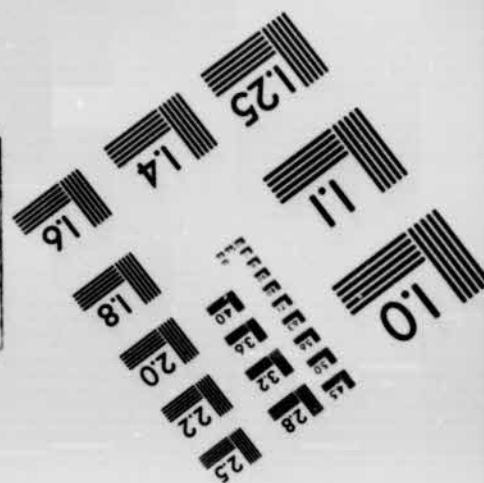
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Information Services, Inc.



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Information services, Inc.
5161 River Road-Bethesda, MD 20816





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FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of June, 1995

RECEIVED BY

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JUN 26 1995

DISCLOSURE INC.

RADICA GAMES LIMITED

(Translation of registrant's name into English)

Suite R, 6/F., 2-12 Au Pui Wan Street, Fo Tan, Hong Kong
(Address of principal executive offices)

L6Q

Indicate by check mark whether the registrant files or will file annual reports
under cover of Form 20-F or 40-F

Form 20-F ☒ X

Form 40-F ☐

Indicate by check mark whether the registrant by furnishing the information
contained in this Form is also thereby furnishing the information to the Commission
pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ☐

No ☒ X

If "yes" is marked, indicate below the file number assigned to the registrant in
connection with Rule 12g3-2(b): 82-_____

Contents:

1. Quarterly Report
2. Press Release dated June 5, 1995

Page 1 of 31 pages; Exhibit on page 23

QUARTERLY REPORT *

For the quarterly period ending April 30, 1995

Commission File Number 0-23696

RADICA GAMES LIMITED
(Exact name of registrant as specified in charter)

Bermuda
(Country of Incorporation)

N/A
(I.R.S. Employer Identification No.)

Suite R, 6/F., 2-12 Au Pui Wan Street, Fo Tan, Hong Kong
(Address of principal executive offices)

Registrant's telephone number, including area code: (852) 2693 2238

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Outstanding at 5 June, 1995</u>
Common Stock, par value \$0.01 per share	22,780,000

* As a foreign private issuer, the registrant is not required to file reports on Form 10-Q. It intends to make voluntary quarterly reports to its stockholders which generally follow the Form 10-Q format. Such reports, of which this is one, are furnished to the Commission pursuant to Form 6-K.

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements

RADICA GAMES LIMITED

FORM 6-K

The accompanying consolidated financial statements have been prepared by the Company, without audit, and reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods. The statements have been prepared in accordance with the regulations of the Securities and Exchange Commission (the "SEC"), but omit certain information and footnote disclosures necessary to present the statements in accordance with generally accepted accounting principles in the United States of America.

These financial statements should be read in conjunction with the financial statements, accounting policies and notes included in the quarterly report for the second quarter 1994 on Form 6-K dated June 3, 1994, the Company's Annual Report to Shareholders for the fiscal year ended October 31, 1994 and in the Company's Annual Report on Form 20-F for such fiscal year. Management believes that the disclosures are adequate to make the information presented herein not misleading.

RADICA GAMES LIMITED
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands,
except per share data)

	SIX MONTHS ENDED		THREE MONTHS ENDED	
	APR. 30,		APR. 30,	
	1995	1994	1995	1994
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	\$	\$	\$	\$
REVENUES:				
Net Sales:				
Net sales to unaffiliated customers	24,842	21,080	7,358	11,323
Net sales to related parties	-	2,601	-	1
<i>Total net sales</i>	24,842	23,681	7,358	11,324
Cost of sales	(13,936)	(11,183)	(4,222)	(5,521)
<i>Gross profit</i>	10,906	12,498	3,136	5,803
OPERATING EXPENSES:				
Selling, general and administrative expenses	(10,055)	(4,862)	(4,459)	(2,560)
Research and development	(1,121)	(634)	(597)	(351)
<i>Total operating expenses</i>	(11,176)	(5,496)	(5,056)	(2,911)
OPERATING (LOSS)/INCOME	(270)	7,002	(1,920)	2,892
NET INTEREST EXPENSE	(275)	(18)	(70)	(5)
(LOSS)/INCOME BEFORE INCOME TAXES	(545)	6,984	(1,990)	2,887
INCOME TAXES (Note 7)	322	(514)	512	(192)
NET (LOSS)/INCOME	(223)	6,470	(1,478)	2,695
NET (LOSS)/INCOME PER SHARE	(0.01)	0.32	(0.06)	0.13
AVERAGE NUMBER OF SHARES OUTSTANDING	22,780,000	20,260,000	22,780,000	20,260,000

See accompanying notes to consolidated financial statements.

RADICA GAMES LIMITED
CONSOLIDATED BALANCE SHEETS

ASSETS

(Dollars in thousands)

	APR. 30, 1995 (unaudited) \$	OCT. 31, 1994 \$
CURRENT ASSETS:		
Cash and cash equivalents	9,033	11,038
Short-term investments (Note 3)	3,230	3,230
Accounts receivable, net of allowances for doubtful accounts of \$92 and \$96 in 1995 and 1994 and estimated customer returns of \$393 and \$138 in 1995 and 1994	8,727	25,977
Inventories (Note 4)	33,920	33,222
Prepaid expenses and other current assets	853	1,698
Income taxes receivable	525	-
<i>Total current assets</i>	56,288	75,165
PROPERTY, PLANT AND EQUIPMENT, NET (Note 6)	14,492	11,731
DEFERRED INCOME TAXES (Note 7)	181	188
OTHER ASSETS	188	242
<i>Total Assets</i>	71,149	87,326

See accompanying notes to consolidated financial statements.

**RADICA GAMES LIMITED
CONSOLIDATED BALANCE SHEETS**

LIABILITIES AND STOCKHOLDERS' EQUITY

(Dollars in thousands)

	APR.30, 1995 (unaudited) \$	OCT. 31, 1994 \$
CURRENT LIABILITIES:		
Short-term borrowings(Note 8)	10,248	15,473
Current portion of long-term debt(Note 9)	248	127
Accounts payable	3,091	10,401
Note payable(Note 10)	3,000	3,000
Accrued payroll and employee benefits	241	355
Accrued expenses	2,487	3,926
Income taxes payable	-	2,150
<i>Total current liabilities</i>	<u>19,315</u>	<u>35,432</u>
LONG-TERM DEBT (Note 9)	<u>136</u>	<u>73</u>
STOCKHOLDERS' EQUITY		
Common stock		
par value \$0.01 each, 100,000,000 shares authorised, 22,780,000 shares outstanding	228	228
Additional paid-in capital	28,229	28,129
Retained earnings	23,220	23,443
Cumulative translation adjustment	21	21
<i>Total stockholders' equity</i>	<u>51,698</u>	<u>51,821</u>
<i>Total liabilities and stockholders' equity</i>	<u><u>71,149</u></u>	<u><u>87,326</u></u>

See accompanying notes to consolidated financial statements.

RADICA GAMES LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	SIX MONTHS ENDED APR. 30,	
	1995	1994
	(unaudited)	(unaudited)
	\$	\$
CASH FLOW FROM OPERATING ACTIVITIES:		
Net (loss)/income	(223)	6,470
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	7	(33)
Depreciation and amortization	672	269
Provision for compensation expense related to stock options	100	76
Changes in assets and liabilities:		
Accounts Receivable	17,250	(1,845)
Inventories	(698)	(3,408)
Prepaid expenses and other current assets	845	(149)
Receivables from related parties	-	2,175
Accounts payable	(7,310)	(449)
Payables to related parties	-	69
Accrued payroll and employee benefits	(114)	(55)
Accrued expenses	(1,439)	449
Income taxes payable	(2,675)	106
Total adjustments	6,638	(2,795)
Net cash provided by operating activities	6,415	3,675
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(3,110)	(646)
Increase in other assets	29	(110)
Net cash used in investing activities	(3,081)	(756)
CASH FLOW FROM FINANCING ACTIVITIES:		
Dividends paid	-	(3,025)
(Repayment)/Increase of short-term borrowings	(5,225)	1,954
Repayment of long-term debt	(114)	(37)
Net cash used in financing activities	(5,339)	(1,108)

(continued)

RADICA GAMES LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Continued from previous page)

(Dollars in thousands)

	SIX MONTHS ENDED APR. 30,	
	1995	1994
	(unaudited)	(unaudited)
	\$	\$
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(2,005)	1,811
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	11,038	4,698
CASH AND CASH EQUIVALENTS AT END OF PERIOD	9,033	6,509
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	526	18
Income taxes	2,354	344
Non cash transactions:-		
Property acquired under capital leases	298	-

See accompanying notes to consolidated financial statements.

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS
For the six months ended April 30, 1995
(dollars in thousands)

1. REORGANIZATION AND BASIS OF PRESENTATION

The accompanying financial statements have been prepared, in accordance with accounting principles generally accepted in the United States of America and are presented in U.S. dollars as the Company's sales are predominantly denominated in U.S. dollars, for inclusion in a form 6-K for filing purposes with the Securities and Exchange Commission of Radica Games Limited ("Radica Games"), and include the accounts of Radica Games and its subsidiaries. The shares of Radica Games were listed on the NASDAQ Exchange on May 20, 1994.

"Radica Games", became the holding company of Radica Limited ("Radica HK"), a company incorporated in Hong Kong, on December 21, 1993, and Radica Enterprises, Ltd. ("Radica USA"), a company incorporated in the United States of America, on May 13, 1994, through exchange of common stock of Radica Games for all the common shares of Radica HK and Radica USA.

Because Radica HK and Radica USA have been under common control since their incorporation, the financial information for the period ended April 30, 1995 has been prepared to reflect the financial position, the results of operations and cash flows of the Company as if the structure of the Company resulting from the above transactions had been in existence, for all the periods presented, in a manner similar to the pooling-of-interests method.

All significant intra-group transactions and balances have been eliminated on consolidation.

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS -- (Cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents -- Cash and cash equivalents include cash on hand, cash accounts, interest-bearing savings accounts, and time certificates of deposit with a maturity at purchase date of three months or less.

Inventories -- Inventories are stated at the lower of cost, determined by the weighted average method, or market.

Depreciation and amortization of property, plant and equipment -- Depreciation is provided on the straight line method at rates based upon the estimated useful lives of the property, generally not more than seven years except for leasehold land and buildings which are 50 years, the term of the lease. Costs of leasehold improvements are amortized over the life of the related asset or the term of the lease, whichever is shorter. No depreciation and amortization is provided for construction-in-progress until it is put into use.

Revenue recognition -- Revenues are recognized as sales when merchandise is shipped. The Company permits the return of damaged or defective products and accepts limited amounts of product returns in certain other instances. Accordingly, the Company provides allowances for the estimated amounts of these returns at the time of revenue recognition, based on historical experience adjusted for known trends.

Income taxes -- Certain items are treated differently for financial reporting purposes than for income tax purposes. Pursuant to the provision of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," deferred income taxes are provided, under the liability method, in recognition of these temporary differences, using the tax rates expected to be in effect when the related temporary differences reverse.

Foreign currency translation -- Assets and liabilities of foreign operations are translated using period-end exchange rates. Revenues and expenses of foreign operations are translated using average monthly exchange rates. The impact of exchange rate changes is shown as "Cumulative Translation Adjustment" in shareholders' equity. Net losses from foreign exchange transactions of \$227 in six months to April 30, 1995 and \$167 in six months to April 30, 1994 are included in selling, general and administrative expenses.

Post-retirement and post-employment benefits -- The Company does not provide post-retirement benefits to employees and post-employment benefits are immaterial.

Warranty -- Future warranty costs are provided for at the time of revenue recognition based on the management's estimate by reference to historical experience adjusted for known trends.

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS -- (Cont'd)

3. SHORT-TERM INVESTMENTS

At April 30, 1995, the Company had an investment in a pre-refunded tax-free municipal bond fund of \$3,000 which is scheduled to mature in August 1995.

4. INVENTORIES

Inventories by major categories are summarized as follows:

	April 30, <u>1995</u> (unaudited)	October 31, <u>1994</u>
Raw materials	\$8,994	\$11,205
Work in progress	4,178	4,171
Finished goods	<u>20,748</u>	<u>17,846</u>
	<u>\$33,920</u>	<u>\$33,222</u>

5. RELATED PARTY TRANSACTIONS

The following table summarizes the transactions between the Company and related companies:

	Six months Ended April 30, <u>1995</u> (unaudited)	Six Months Ended April 30, <u>1994</u> (unaudited)
John N. Hansen Company, Inc. Sales to	-	\$2,523
Rahn Sales Company, Inc. Sales to	-	\$ 78
Disc, Inc. Design fees paid	-	\$ 361

On May 20, 1994 Disc, Inc. became a wholly owned subsidiary of the Company.

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS -- (Cont'd)

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	April 30, 1995 (unaudited)	October 31, 1994
Land and buildings	\$6,189	\$5,663
Plant and machinery	4,139	3,269
Furniture and equipment	2,658	1,872
Leasehold improvements	604	504
Construction-in-progress	3,217	2,091
Total	<u>16,807</u>	<u>13,399</u>
Less: Accumulated depreciation and amortization	(2,315)	(1,668)
Total	<u>\$14,492</u>	<u>\$11,731</u>

Additions, disposals and depreciation and amortization of property, plant and equipment for the periods shown are as follows:

	Six Months Ended April 30, 1995 (unaudited)	Year Ended October 31, 1994
Additions	\$3,408	\$9,937
Disposals -- net book value	\$ -	\$ -
Depreciation and amortization	<u>\$ 647</u>	<u>\$ 788</u>

Included in property, plant and equipment are assets acquired under capital leases with the following net book values:

	Six Months Ended April 30, 1995 (unaudited)	Year Ended October 31, 1994
At cost:		
Plant and machinery	\$679	\$ 493
Less: accumulated depreciation	(73)	(87)
	<u>\$606</u>	<u>\$ 406</u>

Amortization of capital lease assets, which is included in depreciation and amortization expenses in the accompanying statements of income, was \$48 for the period ended April 30, 1995 and \$60 for the year ended October 31, 1994.

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS -- (Cont'd)

7. INCOME TAXES

The components of (loss)/income before taxes are as follows:

	Six Months Ended April 30, 1995 (unaudited)	Six Months Ended April 30, 1994 (unaudited)
United States	\$(1,024)	\$2,008
Foreign subsidiaries operating in :		
People's Republic of China	498	-
Hong Kong	(19)	4,976
	<u>\$(545)</u>	<u>\$6,984</u>

In accordance with the Hong Kong Inland Revenue Departmental Interpretation and Practice No.21, manufacturing operations carried out in the PRC by Hong Kong companies under a processing arrangement have been apportioned 50% of their income as not subject to Hong Kong income tax.

Under the existing processing arrangement and in accordance with the current tax regulations in the People's Republic of China ("PRC"), the manufacturing income generated in the PRC is not subject to PRC taxes.

Income continuing to be generated from activities in Hong Kong is subject to Hong Kong income tax in full.

Prior to the reorganization in May 1994, Radica USA, the Company's principal operating subsidiary in the United States had elected to be treated as an S Corporation for U.S. Federal income tax purposes. As part of the reorganization the S Corporation Status of Radica USA was terminated and subsequently, its income has been subject to Federal income tax.

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS -- (Cont'd)

7. INCOME TAXES (Cont'd)

The (rebate)/provision for income taxes consists of the following:

	Six Months Ended April 30, <u>1995</u> (unaudited)	Six Months Ended April 30, <u>1994</u> (unaudited)
Hong Kong		
Current	\$12	\$450
Deferred	<u>7</u>	<u>(33)</u>
	\$19	\$417
United States and Canada		
State taxes on income	(17)	97
Federal income taxes	<u>(324)</u>	<u>-</u>
	<u><u>\$(322)</u></u>	<u><u>\$514</u></u>

A reconciliation between the provision for income taxes computed by applying the statutory tax rates in the United States for 1995 and 1994 (Radica USA was not subject to Federal Income Tax before termination of its S Corporation status during fiscal 1994) to income before taxes and the actual provision for income taxes is as follows:

	Six Months Ended April 30, <u>1995</u> (unaudited)	Six Months Ended April 30, <u>1994</u> (unaudited)
Statutory Rate	34%	34%
(Rebate)/Provision for income taxes at statutory rate on income for the period	\$(185)	\$2,375
State income taxes	(2)	-
International rate differences	(3)	(1,281)
Income not subject to taxation	(169)	-
Others	<u>37</u>	<u>(580)</u>
Income tax provision	<u><u>\$(322)</u></u>	<u><u>\$514</u></u>

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS -- (Cont'd)

7. INCOME TAXES (Cont'd)

Deferred income taxes reflect the net tax effect of deductible temporary differences between the amounts of assets and liabilities for income tax purposes compared with the respective amounts for financial statements purposes. At April 30, 1995 and October 31, 1994 deferred income taxes comprised:

	April 30, <u>1995</u> (unaudited)	October 31, <u>1994</u>
Deferred tax assets:		
Excess tax depreciation over financial reporting depreciation	\$(78)	\$ (71)
Advertising allowances	130	130
Others	129	129
	<u>\$181</u>	<u>\$ 188</u>

Management believes that no valuation allowance against the net deferred tax asset is necessary.

8. SHORT-TERM BORROWINGS

These include borrowings in the form of trade acceptances, and overdrafts with various banks.

	April 30, <u>1995</u> (unaudited)	October 31, <u>1994</u>
Credit facilities available at end of period	\$24,239	\$23,484
Utilized at end of period	10,248	15,473
Weighted average interest rate on borrowings at end of period	10.06%	10.1%

Interest rates are generally based on the banks' prime rate.

9. LONG-TERM DEBT

	April 30, <u>1995</u> (unaudited)	October 31, <u>1994</u>
Long-term debt consists of:		
Capital lease obligations, (interest at 13.35% to 13.80%)	\$384	\$ 200
Current portion of long-term debt	(248)	(127)
Long-term debt, less current portion	<u>\$136</u>	<u>\$ 73</u>

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS -- (Cont'd)

10. NOTE PAYABLE

At April 30, 1995, the Company had a note payable for \$3,000 which matures on May 4, 1995 and accrues interest at 6.06% payable on maturity. This note was repaid on May 4, 1995.

11. STOCK OPTIONS

The Company's 1994 Stock Option Plan (the "Stock Option Plan") provides for options to be granted for the purchase of an aggregate of 1,600,000 shares of common stock at per share prices not less than 100% of the fair market value at the date of grant as determined by the Compensation Committee of the Board of Directors. Options under this plan are generally exercisable ratably over five years from the date of grant unless otherwise provided.

In December 1993, an officer was granted an option under his employment agreement to purchase 188,000 shares of common stock of Radica Games at an exercise price of \$0.567 per share. Twenty percent of the stock options vest and become exercisable on each of the first five anniversaries of the date of the officer's employment agreement, which was December 13, 1993 and all of the options expire on October 31, 2003. During the six months ended April 30, 1995, 85,000 options were granted under the Stock Option Plan exercisable at \$8.50 per share. In April 1995, three outside directors were granted an option under the plan to purchase 5,000 shares each of common stock of Radica Games at an exercise price of \$3.66 per share. These options become exercisable on April 3, 1996 and expire on April 3, 2004. At April 30, 1995 1,211,000 options granted under the Stock Option Plan, exercisable at prices ranging from \$8.50 to \$8.53 per share, 15,000 options, exercisable at a price of \$3.66 and 188,000 options exercisable at \$0.567 granted under an employment agreement are outstanding.

12. OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK AND MAJOR CUSTOMERS

Accounts receivable of the Company are subject to a concentration of credit risk with customers in the retail sector. This risk is limited due to the large number of customers composing the Company's customer base and their geographic dispersion, though the Company has three customers which accounted for more than nineteen, thirteen and eleven percent of net sales in the six months ended April 30, 1995 and had two customers which accounted for more than fourteen and twelve percent of net sales in fiscal 1994. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers.

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS -- (Cont'd)

13. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of the Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments." The estimated fair value amounts have been determined by the Company, using available market information and appropriate valuation methodologies. The estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

The carrying amounts of cash and short-term investment, accounts receivable, accounts payable and a note payable are reasonable estimates of their fair value.

At April 30, 1995, the Company has letters of credit outstanding totalling \$3,095 which guarantee various trade activities. The contract amount of the letters of credit is a reasonable estimate of the fair value since the value for each is fixed over the life of the commitment.

14. RETIREMENT PLAN

The Company has defined contribution retirement plans covering substantially all employees in Hong Kong. Under these plans, eligible employees may contribute amounts through payroll deductions which are not more than 5% of individual salary, supplemented by employer contributions ranging from 5% to 10% of individual salary depending on the years of service. The expenses related to these plans were \$83 and \$49 for the six months ended April 30, 1995 and fiscal 1994 respectively.

15. LITIGATION

Ten purported class actions filed in various United States District Courts against the Company, various of its officers and directors, and the managing underwriters of the Company's initial public offering have been consolidated in the United States District Court for the District of Nevada under the caption In re Radica Games Limited Securities Litigation, Master File No. CV-S-94-00653-DAE (LRL). Plaintiffs filed a consolidated complaint on November 4, 1994 that superseded all the complaints in the individual actions.

The named plaintiffs seek to represent a class consisting of purchasers of the Company's common stock in the initial public offering or in the open market from May 13 through July 22, 1994. The plaintiffs seek unquantified monetary damages and other relief against the defendants for alleged violations of Sections 11, 12(2), and 15 of the Securities Act of 1933, Sections 10b (and Rule 10b-5 thereunder), 20(a), and 20A(a) of the Securities Exchange Act of 1934, Sections 90.570, 90.660 and 90.660.4 of the Nevada Revised Statutes, and the common law of Nevada relating to the Company's registration statement and other public disclosures.

The Company believes the plaintiffs allegations are without merit and intends to defend these lawsuits vigorously.

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS -- (Cont'd)

16. SEGMENT INFORMATION

The Company operates in one principal industry segment: the design, development, manufacturing and distribution of a variety of non-gambling casino theme games. Over 90% of the Company's products are sold in the United States. Geographic financial information is as follows:

	Six months ended April 30, 1995 (unaudited)	Six months ended April 30, 1994 (unaudited)
Net sales:		
United States	\$24,206	\$17,068
PRC and Hong Kong	636	6,613
	<u>\$24,842</u>	<u>\$23,681</u>
Operating (loss)/income:		
United States	\$(723)	\$ 1,835
PRC and Hong Kong	453	5,167
	<u>\$(270)</u>	<u>\$7,002</u>
Identifiable assets:		
United States	\$28,591	\$12,913
PRC and Hong Kong	42,558	14,471
	<u>71,149</u>	<u>\$27,384</u>

A significant portion of PRC and Hong Kong net sales in the six months ended April 30, 1994 were export sales to the United States.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the attached financial statements and notes thereto, and with the quarterly report for the second quarter of 1994 on Form 6-K dated June 3, 1994, the audited financial statements, accounting policies and notes included in the Company's Annual Report to Shareholders for the fiscal year ended October 31, 1994, and in the Company's Annual Report on Form 20-F for such fiscal year as filed with the United States Securities and Exchange Commission.

RESULTS OF OPERATIONS -- QUARTER ENDED APRIL 30, 1995 COMPARED TO THE QUARTER ENDED APRIL 30, 1994

Net sales for the quarter ended April 30, 1995 of \$7.4 million decreased 34.5% from the \$11.3 million for the same quarter in 1994. Unit sales decreased 26% during the second quarter 1995 over the second quarter 1994. New products included the introduction of the "1900" series, a range of high-end flip-lid products sold under our new "Monte Carlo" label; the "1200" series, a range of low-end flip-lid products; new slot games with a nudge feature; a two-in-one slot game (normal and nudge); face-up blackjack and three-in-one poker games (draw poker, deuces-wild and joker-poker). These products did not have any meaningful sales in the second quarter but are expected to impact the third and fourth quarters. Sales of handheld games accounted for 83% of net sales, down from 96.7% in the second quarter of 1994. The second quarter decline in net sales resulted primarily from a slowing of retail sales in the domestic market and from the shifting of sales for the Father's Day season from the second quarter to the third quarter. During the second quarter, the Company introduced a new import sales program that allowed a majority of the Father's Day shipments to be made from existing inventories as opposed to manufacturing in Asia for shipment directly to retailers. A consequence of the program was to shift many orders that normally would have shipped as April sales from Asia, to May sales shipped directly from existing domestic inventories.

Net sales in the second quarter of 1995 were approximately \$10.1 million lower than those of the first quarter of 1995 due primarily to substantial Christmas orders in November and December of the first quarter.

Gross profit for the second quarter of fiscal 1995 was \$3.1 million as compared to \$5.8 million for the second quarter of fiscal 1994, a decrease of \$2.7 million or 46.6%. The gross margin for the second quarter of 1995 of 42.6% has dropped from 51.2% for the same quarter in 1994. This decline is due primarily to sale of some products manufactured in the fourth quarter of 1994 which had additional costs of subcontracting together with the sales of certain lower margin models, together with shrinkage encountered at 3rd party facilities in the U.S.A.

The gross margin for the second quarter of 1995 decreased 1.8% from 44.4% for the first quarter of 1995. This decrease was due to shrinkage encountered at 3rd party facilities in the U.S.A. offset by lower cost of product produced subsequent to the fourth quarter together with a higher mix of higher margin domestic sales. The effect of the shrinkage was to reduce a 2nd quarter margin of 47% to 42.6%.

The Company has implemented an inventory reduction program on certain current models that includes promotional pricing, payment dating, promotional expenditures, and sales incentives. The promotional pricing will tend to lower gross margins in the third and fourth quarters of fiscal 1995.

**RESULTS OF OPERATIONS -- QUARTER ENDED APRIL 30, 1995
COMPARED TO THE QUARTER ENDED APRIL 30, 1994 (Cont'd)**

Operating loss for the second quarter of 1995 was \$1.9 million, down \$4.8 million from the operating profit of \$2.9 million in the same quarter in 1994. The operating margin for the quarter was (26.1)%, compared to the 25.5% margin for the second quarter of 1994. Operating expenses increased \$2.2 million from \$2.9 million in second quarter of 1994 to \$5.1 million in the second quarter of 1995 primarily due to increases in selling, general and administrative expenses and research and development costs and were offset by lower commissions due to the lower sales volumes. Compensation expenses increased \$1.0 million to \$1.7 million due to staff increases in the Hong Kong and the U.S.A. operations. Indirect depreciation costs increased by \$125,000 to \$283,000 in the second quarter of 1995 from \$158,000 in the second quarter of 1994 due primarily to the increase in fixed assets as a result of the new plant addition. The cost of product displays for use in stores increased \$121,000 to \$215,000 in the second quarter of 1995 from \$94,000 in the second quarter of 1994. Commissions paid to sales representatives decreased \$210,000 to approximately \$475,000 from \$685,000 in the second quarter of 1994. Research and development increased \$246,000 to \$597,000 from \$351,000 in the second quarter of 1994.

The effective blended tax rate for the second quarter of 1995 was an effective tax rebate of 25.7% compared to a 6.7% for effective tax rate the same quarter in 1994. This is due to a net loss in the distribution operations of Radica U.S.A. allowing a rebate of taxation from the first quarter combined with the 0% effective rate on profits from the China manufacturing.

Net loss for the second quarter of 1995 was 1.5 million, down from net income of \$2.7 million in the second quarter of 1994. The net loss per common share in the second quarter of 1995 was \$0.06 as compared to net income per share of \$0.13 for the second quarter of 1994.

CAPITAL RESOURCES AND LIQUIDITY

Cash and cash equivalents totalled \$9.0 million at April 30, 1995, down \$2.0 million from year-end 1994. Working capital at April 30, 1995 was \$37 million, a \$2.7 million decrease from working capital of \$39.7 million at October 31, 1994. The decrease in working capital is due primarily to the payment of construction costs for the Group's new factory in Tai Ping, China which was completed in May 1995. The ratio of current assets to current liabilities increased to 2.9 at April 30, 1995 from 2.1 at October 31, 1994. This increase in the current ratio is due to repayment of the substantial year end trade finance loans.

Inventories at April 30, 1995 totalled \$33.9 million compared to \$33.2 million at October 31, 1994. This increase is due mainly to the '75 day sales program' which leaves goods shipped in April from Hong Kong as inventory until they arrive in the U.S.A. At January 31, 1995 inventories totalled \$31.5 million. During the second quarter \$5.3 million of raw materials were purchased for production including \$608,000 for pub poker.

Short-term borrowings of \$10.2 million at April 30, 1995 were down from \$15.5 million at October 31, 1994. This decrease is due primarily to repayment of credit lines used for the purchase of raw materials for the manufacturing operation.

The Company believes that its existing cash and cash equivalents and cash generated from operations are sufficient to satisfy its current anticipated working capital needs. However, strong demands for the Pub Poker™ product could require substantial increases in working capital. Potential sources of financing may include bank or other debt, public debt securities, available cash and funds generated from operation, or a combination of these.

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings

See Note 15 of Notes to Financial Statements, included herein.

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None.

(b) Reports on Form 8-K

None.

**RADICA GAMES LIMITED
(NASDAQ SYMBOL -- RDAF)****RADICA GAMES LIMITED
ANNOUNCES JOINT VENTURE WITH
HASBRO GAMES GROUP****FOR IMMEDIATE RELEASE****CONTACT: JON N. BENGTSON****June 5, 1995****(702) 829-8643**

Radica Games Limited announced today a joint venture relationship with Hasbro Games Group for the development, manufacture and distribution of handheld electronic games and other products. "This venture provides Radica with the opportunity to design and manufacture the most popular game titles in the market and enhances our emerging business of original equipment manufacturing in our new southern China factory", said Bob Davids, President and CEO of Radica. "We are very proud to be associated with the industry's premier game company. We believe Hasbro Games Group is the finest marketer in the business with the strongest game titles from Milton Bradley Company and Parker Brothers. Our joint efforts will provide handheld electronic games that should show strong sales for retailers", said Davids.

--MORE--**23**

CORRESPONDENCE ADDRESS: 5301-D LONGLEY LANE • SUITE 157 • RENO • NEVADA • 89511-1811 / (800) 880-6402 / (702) 829-8643 • FAX: (702) 829-8688

**REGISTERED ADDRESS: CLARENDON HOUSE • CHURCH STREET • HAMILTON HM 11 • BERMUDA
INCORPORATED WITH LIMITED LIABILITY IN BERMUDA**

PAGE 2

Dave Wilson, President of Hasbro Games Group said, "It's exciting to be a partner with an aggressive pioneer like Radica in the fast growing category of electronic games. We think this joint venture will show great results for each of us". The Hasbro Games Group consists of Milton Bradley Company and Parker Brothers, both divisions of Hasbro Inc.

Separately, Radica has an "OEM" manufacturing agreement with International Game Technology to produce commercial gaming machines in Radica's China factory. This production is scheduled to begin in the fall of this year.

"These manufacturing ventures are part of our commitment to build on our manufacturing strengths in China and provide growth in our emerging "OEM" business. Phase 1 of the new factory with 430,000 square feet has just begun production and will provide adequate capacity to support the projected volumes of the joint venture and the IGT production agreement as well as Pub Poker™ and our core game business. ", said Davids.

--END--

**RADICA GAMES LIMITED
(NASDAQ SYMBOL -- RADAF)**

**RADICA GAMES LIMITED
REPORTS RESULTS FOR THE
SECOND QUARTER ENDED APRIL 30, 1995**

FOR IMMEDIATE RELEASE

CONTACT: JON N. BENGTSON

June 5, 1995

(702) 829-8643

(Reno, Nevada) Radica Games Limited (NASDAQ RADAF) reported today net sales of \$7.4 million a 34.5% decline from \$11.3 million for the second quarter of 1994. Net loss for the second quarter was \$1.5 million, down from net income of \$2.7 million in the second quarter of 1994. The net loss per common share in the second quarter was \$0.06 compared to net income per share of \$0.13 for the second quarter of 1994.

The second quarter decline in net sales resulted primarily from a slowing of retail sales in the domestic market and from the shifting of sales for the Fathers day season from the second quarter to the third quarter. During the second quarter the company introduced a new import sales program that allowed a majority of the Fathers day shipments to be made from existing inventories as opposed to manufacturing in Asia for shipment directly to retailers. This program was

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**REGISTERED ADDRESS: CLARENDON HOUSE • CHURCH STREET • HAMILTON HM 11 • BERMUDA
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designed to reduce inventory levels. A consequence of the program was to shift many orders that normally would have shipped as April sales from Asia to May sales shipped directly from the company's U.S. facilities.

Gross profit for the second quarter of fiscal 1995 declined 46.6% to \$3.1 million compared to \$5.8 million for the second quarter of fiscal 1994. The gross margin for the second quarter was 42.6% compared to 51.2% for the same quarter last year and 44.4% in the first quarter of fiscal 1995.

The decline in gross margin over last year's first quarter was due primarily to higher average costs of inventory produced in the fourth quarter of 1994, lower pricing for higher volume retailers and to shrinkage sustained in the domestic inventory. The shrinkage occurred at a third party storage facility and is under investigation by the company. This inventory shrinkage reduced the second quarter fiscal 1995 gross margin from 47.0% to 42.6% and amounted to approximately \$0.5 million.

Operating loss for the second quarter of 1995 was \$1.9 million compared to operating income of \$2.9 million for the same quarter last year. Operating expenses increased to \$5.1 million from \$2.9 million in the second quarter of fiscal 1994 and declined from \$6.1 million for the first quarter of fiscal 1995. These increases were primarily due to increases in salary and wage expenses, research and development expenses, depreciation expense and advertising and display costs. These expense increases were offset in the second quarter by

—MORE—

approximately \$210,000 in lower sales commissions due to lower sales levels. For the quarter salary and wage expenses increased \$1.0 million to \$1.7 million, research and development expenses increased \$246,000 to \$597,000, indirect depreciation increased \$125,000 to \$283,000 and product display costs increased \$121,000 to \$215,000. The company plans to continue to emphasize the placement of trade fixtures and displays including the service of those displays at the store level.

"The company has recently taken steps to improve its cost efficiency throughout the organization. We have outsourced our warehousing and distribution functions in Las Vegas and have ceased national distribution operations at that facility. We anticipate depleting inventory levels in our Dallas facility and closing its distribution function by the end of this year. We believe that this will substantially reduce our shipping costs and prove to be much more cost efficient. We have recently entered into a product development and manufacturing relationship with Hasbro Games group which we believe will provide additional absorption of factory overhead without increasing overhead costs. Additionally we are investigating closing or downsizing our Mexico manufacturing facility which we believe may no longer be necessary as a hedge against trade sanctions in China and is not needed as manufacturing capacity", said Bob Davids, President and CEO.

"We are aggressively pursuing the reduction of inventories to normal operating levels. This inventory reduction program includes some promotional pricing,

—MORE—

payment dating, promotional expenditures and sales incentives to place the product into distribution channels and high traffic areas that will not disturb our core markets. This inventory reduction is expected to be completed by December 1995. The promotional pricing will tend to lower our gross margin during the third and fourth quarter but should provide an incremental increase in sales and additional liquidity", said Davids.

Davids reported that the first 2350 Pub Poker™ games begin shipping this week to customers in California, Kansas and Nebraska. The company expects to manufacture 4,000 games each month through December 1995.

"We are very pleased with our product development and manufacturing relationship with Hasbro Games Group. This relationship along with our separate "OEM" relationship with International Game Technology gives our emerging "OEM" business a good base. We will continue to aggressively develop our "OEM" manufacturing business to take full advantage of our new factory. Phase 1 of the new factory with 430,000 square feet has begun production and will provide adequate capacity to support the projected volumes from these "OEM manufacturing relationships as well as Pub Poker™ and our core game business", Davids said.

—END—

RADICA GAMES LIMITED
CONSOLIDATED STATEMENTS OF INCOME

*(Dollars in thousands,
except per share data)*

	SIX MONTHS ENDED APRIL 30.		THREE MONTHS ENDED APRIL 30.	
	1995 (unaudited) \$	1994 (unaudited) \$	1995 (unaudited) \$	1994 (unaudited) \$
REVENUES:				
Net Sales:				
Net sales to unaffiliated customers	24,842	21,080	7,358	11,323
Net sales to related parties	-	2,601	-	1
<i>Total net sales</i>	24,842	23,681	7,358	11,324
Cost of sales	(13,936)	(11,183)	(4,222)	(5,521)
<i>Gross profit</i>	<u>10,906</u>	<u>12,498</u>	<u>3,136</u>	<u>5,803</u>
OPERATING EXPENSES:				
Selling, general and administrative expenses	(10,055)	(4,862)	(4,459)	(2,560)
Research and development	(1,121)	(634)	(597)	(351)
<i>Total operating expenses</i>	<u>(11,176)</u>	<u>(5,496)</u>	<u>(5,056)</u>	<u>(2,911)</u>
OPERATING (LOSS)/INCOME	(270)	7,002	1,920	2,892
NET INTEREST EXPENSE	(275)	(18)	(70)	(5)
(LOSS)/INCOME BEFORE INCOME TAXES	(545)	6,984	(1,990)	2,887
INCOME TAXES	322	(514)	512	(192)
NET (LOSS)/INCOME	(223)	6,470	(1,478)	2,695
NET (LOSS)/INCOME PER SHARE	(0.01)	0.32	(0.06)	0.13
AVERAGE NUMBER OF SHARES OUTSTANDING	22,780,000	20,260,000	22,780,000	20,260,000

RADICA GAMES LIMITED
CONSOLIDATED BALANCE SHEETS

ASSETS

(Dollars in thousands)

	<u>APR. 30.</u> <u>1995</u> (unaudited)	<u>OCT. 31.</u> <u>1994</u>
	\$	\$
CURRENT ASSETS:		
Cash and cash equivalents	9,033	11,038
Short-term investments	3,230	3,230
Accounts receivable, net of allowances for doubtful accounts of \$92 and \$96 in 1995 and 1994 and estimated customer returns of \$393 and \$138 in 1995 and 1994	8,727	25,977
Inventories	33,920	33,222
Prepaid expenses and other current assets	853	1,698
Income taxes receivable	<u>525</u>	<u>-</u>
<i>Total current assets</i>	56,288	75,165
PROPERTY, PLANT AND EQUIPMENT, NET	14,492	11,731
DEFERRED INCOME TAXES	181	188
OTHER ASSETS	<u>188</u>	<u>242</u>
<i>Total Assets</i>	<u><u>71,149</u></u>	<u><u>87,326</u></u>

LIABILITIES AND STOCKHOLDERS' EQUITY

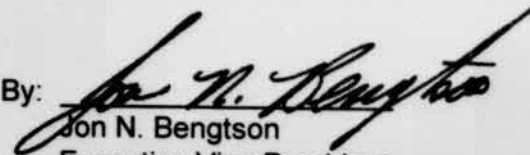
CURRENT LIABILITIES:		
Short-term borrowings	10,248	15,473
Current portion of long-term debt	248	127
Accounts payable	3,091	10,401
Note payable	3,000	3,000
Accrued payroll and employee benefits	241	355
Accrued expenses	2,487	3,926
Income taxes payable	<u>-</u>	<u>2,150</u>
<i>Total current liabilities</i>	<u>19,315</u>	<u>35,432</u>
LONG-TERM DEBT	<u>136</u>	<u>73</u>
STOCKHOLDERS' EQUITY		
Common stock		
par value \$0.01 each, 100,000,000 shares		
authorized, 22,780,000 shares outstanding	228	228
Additional paid-in capital	28,229	28,129
Retained earnings	23,220	23,443
Cumulative translation adjustment	<u>21</u>	<u>21</u>
<i>Total stockholders' equity</i>	<u>51,698</u>	<u>51,821</u>
<i>Total liabilities and stockholders' equity</i>	<u><u>71,149</u></u>	<u><u>87,326</u></u>

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RADICA GAMES LIMITED
(Registrant)

Date: June 13, 1995

By:



Jon N. Bengtson
Executive Vice President
Chief Financial Officer

FILMED

JUNE

1995

DISCLOSURE®
Information Services, Inc.

END

RADICA GAMES LTD

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SIC 3944

NMS

SEC # 0-23696

FOR 09/01/95

CARD 001

REC 09/18/95

(c) Disclosure Info. Services, Inc. 233712

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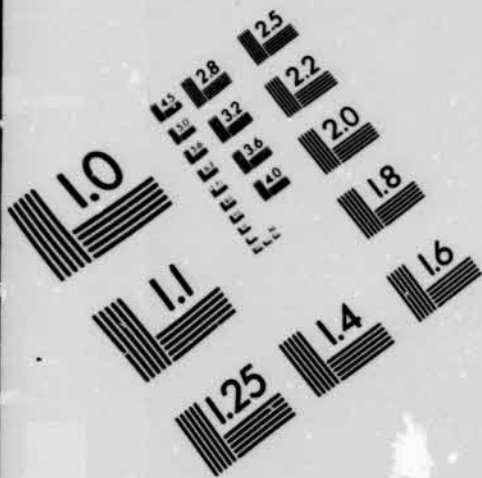
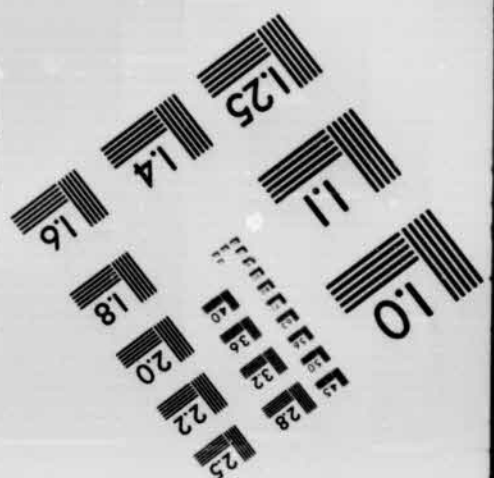
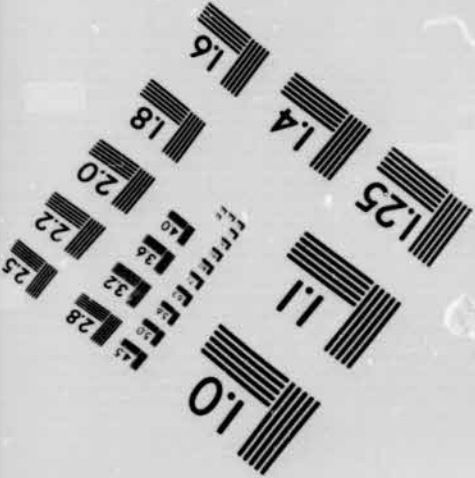
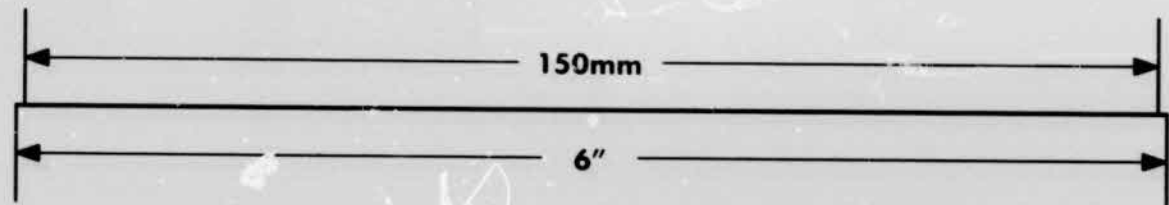
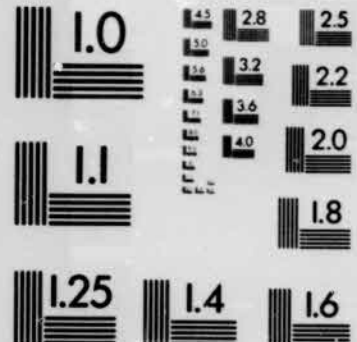
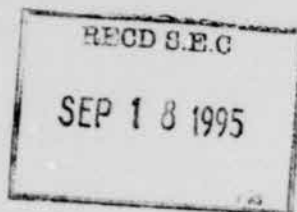


IMAGE EVALUATION
TEST TARGET QA-3



DISCLOSURE.
Information services, Inc.
5161 River Road-Bethesda, MD 20816



P.E. 9-1-95



FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of September, 1995

PROCESSED BY

SEP 20 1995

29-29-I

DISCLOSURE INC.

RADICA GAMES LIMITED

(Translation of registrant's name into English)

Suite R, 6/F., 2-12 Au Pui Wan Street, Fo Tan, Hong Kong
(Address of principal executive offices)

L6Q

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or 40-F

Form 20-F ☒ X

Form 40-F _____

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes _____

No ☒ X

If "yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-_____

Contents:

1. Quarterly Report
2. Press Release dated September 11, 1995

This Report on Form 6-K shall be deemed to be incorporated by reference into the Registrant's Registration Statement on Form S-8 (No. 33-86960).

PG 1 of 29

QUARTERLY REPORT *

For the quarterly period ending July 31, 1995

Commission File Number 0-23696

RADICA GAMES LIMITED
(Exact name of registrant as specified in charter)

Bermuda
(Country of Incorporation)

N/A
(I.R.S. Employer identification No.)

Suite R, 6/F., 2-12 Au Pui Wan Street, Fo Tan, Hong Kong
(Address of principal executive offices)

Registrant's telephone number, including area code: (852) 2693 2238

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Class</u>	<u>Outstanding at September 11, 1995</u>
Common Stock, par value \$0.01 per share	22,780,000

* As a foreign private issuer, the registrant is not required to file reports on Form 10-Q. It intends to make voluntary quarterly reports to its stockholders which generally follow the Form 10-Q format. Such reports, of which this is one, are furnished to the Commission pursuant to Form 6-K.

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements

RADICA GAMES LIMITED

FORM 6-K

The accompanying consolidated financial statements have been prepared by the Company, without audit, and reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods. The statements have been prepared in accordance with the regulations of the Securities and Exchange Commission (the "SEC"), but omit certain information and footnote disclosures necessary to present the statements in accordance with accounting principles generally accepted in the United States of America.

These financial statements should be read in conjunction with the financial statements, accounting policies and notes included in the quarterly report for the third quarter 1994 on Form 6-K dated September 12, 1994, the Company's Annual Report to Shareholders for the fiscal year ended October 31, 1994 and in the Company's Annual Report on Form 20-F for such fiscal year. Management believes that the disclosures are adequate to make the information presented herein not misleading.

RADICA GAMES LIMITED
CONSOLIDATED STATEMENTS OF INCOME

*(Dollars in thousands,
except per share data)*

	NINE MONTHS ENDED		THREE MONTHS ENDED	
	JUL. 31,		JUL. 31,	
	1995	1994	1995	1994
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	\$	\$	\$	\$
REVENUES:				
Net Sales:				
Net sales to unaffiliated customers	37,504	36,015	12,662	14,669
Net sales to related parties	-	2,335	-	-
<i>Total net sales</i>	37,504	38,350	12,662	14,669
Cost of sales	(23,338)	(18,018)	(9,401)	(6,835)
<i>Gross profit</i>	14,166	20,332	3,261	7,834
OPERATING EXPENSES:				
Selling, general and administrative expenses	(15,212)	(9,561)	(5,157)	(4,699)
Research and development	(1,716)	(1,202)	(595)	(568)
<i>Total operating expenses</i>	(16,928)	(10,763)	(5,752)	(5,267)
OPERATING (LOSS)/INCOME	(2,762)	9,569	(2,491)	2,567
NET INTEREST (EXPENSE)/INCOME	(404)	133	(129)	151
(LOSS)/INCOME BEFORE INCOME TAXES	(3,166)	9,702	(2,620)	2,718
INCOME TAXES (Note 7)	1,035	(777)	713	(263)
NET (LOSS)/INCOME	(2,131)	8,925	(1,907)	2,455
NET (LOSS)/INCOME PER SHARE	(0.09)	0.42	(0.08)	0.11
AVERAGE NUMBER OF SHARES OUTSTANDING	22,780,000	21,006,000	22,780,000	22,449,000

See accompanying notes to consolidated financial statements.

**RADICA GAMES LIMITED
CONSOLIDATED BALANCE SHEETS**

ASSETS

(Dollars in thousands)

	JUL. 31, 1995 <u>(unaudited)</u> \$	OCT. 31, 1994 <u>\$</u>
CURRENT ASSETS:		
Cash and cash equivalents	9,252	11,038
Short-term investments (Note 3)	3,099	3,230
Accounts receivable, net of allowances for doubtful accounts of \$51 and \$96 in 1995 and 1994 and estimated customer returns of \$254 and \$138 in 1995 and 1994	9,296	25,977
Inventories (Note 4)	34,986	33,222
Prepaid expenses and other current assets	858	1,698
Income taxes receivable	<u>1,271</u>	<u>-</u>
<i>Total current assets</i>	58,762	75,165
PROPERTY, PLANT AND EQUIPMENT, NET (Note 6)	16,070	11,731
DEFERRED INCOME TAXES (Note 7)	181	188
OTHER ASSETS	<u>107</u>	<u>242</u>
<i>Total Assets</i>	<u><u>75,120</u></u>	<u><u>87,326</u></u>

See accompanying notes to consolidated financial statements.

**RADICA GAMES LIMITED
CONSOLIDATED BALANCE SHEETS**

LIABILITIES AND STOCKHOLDERS' EQUITY

(Dollars in thousands)

	JUL. 31, 1995 (unaudited) \$	OCT. 31, 1994 \$
CURRENT LIABILITIES:		
Short-term borrowings(Note 8)	18,791	15,473
Current portion of long-term debt(Note 9)	381	127
Accounts payable	3,060	10,401
Note payable(Note 10)	-	3,000
Accrued payroll and employee benefits	255	355
Accrued expenses	2,565	3,926
Income taxes payable	-	2,150
<i>Total current liabilities</i>	<u>25,052</u>	<u>35,432</u>
LONG-TERM DEBT (Note 9)	<u>157</u>	<u>73</u>
STOCKHOLDERS' EQUITY		
Common stock		
par value \$0.01 each, 100,000,000 shares		
authorised, 22,780,000 shares outstanding	228	228
Additional paid-in capital	28,350	28,129
Retained earnings	21,312	23,443
Cumulative translation adjustment	<u>21</u>	<u>21</u>
<i>Total stockholders' equity</i>	<u>49,911</u>	<u>51,821</u>
<i>Total liabilities and stockholders' equity</i>	<u><u>75,120</u></u>	<u><u>87,326</u></u>

See accompanying notes to consolidated financial statements.

RADICA GAMES LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	NINE MONTHS ENDED JUL. 31,	
	1995	1994
	(unaudited)	(unaudited)
	\$	\$
CASH FLOW FROM OPERATING ACTIVITIES:		
Net (loss)/income	(2,131)	8,925
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	7	(274)
Depreciation and amortization	1,077	585
Loss on disposal of property, plant and equipment	74	-
Others	366	127
Changes in assets and liabilities:		
Accounts Receivable	16,681	(3,565)
Inventories	(1,764)	(23,344)
Prepaid expenses and other current assets	840	(2,426)
Receivables from related parties	-	1,760
Accounts payable	(7,341)	4,508
Accrued payroll and employee benefits	(100)	156
Accrued expenses	(1,361)	393
Income taxes payable	(3,421)	456
Total adjustments	5,058	(21,624)
Net cash provided by (used in) operating activities	2,927	(12,699)
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(5,453)	(5,474)
Decrease/(Increase) in other assets	98	(177)
Purchase of short-term investments	(14)	-
Net cash used in investing activities	(5,369)	(5,651)
CASH FLOW FROM FINANCING ACTIVITIES:		
Cash received from issue of shares	-	28,526
Dividends paid	-	(6,729)
Increase of short-term borrowings	3,318	8,598
Repayment of long-term debt	(150)	(56)
Funds from sale and leaseback arrangements	488	-
Repayment of note payable	(3,000)	-
Issue of new shares	-	28
Issue costs paid	-	(776)
Net cash provided by financing activities	656	29,591

(continued)

RADICA GAMES LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Continued from previous page)

(Dollars in thousands)

	NINE MONTHS ENDED JUL. 31,	
	1995	1994
	(unaudited)	(unaudited)
	\$	\$
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(1,786)	11,241
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	11,038	4,698
CASH AND CASH EQUIVALENTS AT END OF PERIOD	9,252	15,939
SUPPLEMENTARY DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	979	68
Income taxes	2,379	363

See accompanying notes to consolidated financial statements.

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS
For the nine months ended July 31, 1995
(dollars in thousands)

1. REORGANIZATION AND BASIS OF PRESENTATION

The accompanying financial statements have been prepared, in accordance with accounting principles generally accepted in the United States of America and are presented in U.S. dollars as the Company's sales are predominantly denominated in U.S. dollars, for inclusion in a form 6-K for filing purposes with the Securities and Exchange Commission of Radica Games Limited ("Radica Games"), and include the accounts of Radica Games and its subsidiaries. The shares of Radica Games were listed on the NASDAQ Exchange on May 20, 1994.

"Radica Games", became the holding company of Radica Limited ("Radica HK"), a company incorporated in Hong Kong, on December 21, 1993, and Radica Enterprises, Ltd. ("Radica USA"), a company incorporated in the United States of America, on May 13, 1994, through exchange of common stock of Radica Games for all the common shares of Radica HK and Radica USA.

Because Radica HK and Radica USA have been under common control since their incorporation, the financial information for the period ended July 31, 1994 has been prepared to reflect the financial position, the results of operations and cash flows of the Company as if the structure of the Company resulting from the above transactions had been in existence, for all the periods presented, in a manner similar to the pooling-of-interests method.

All significant intra-group transactions and balances have been eliminated on consolidation.

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS -- (Cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents -- Cash and cash equivalents include cash on hand, cash accounts, interest-bearing savings accounts, and time certificates of deposit with a maturity at purchase date of three months or less.

Inventories -- Inventories are stated at the lower of cost, determined by the weighted average method, or market.

Depreciation and amortization of property, plant and equipment -- Depreciation is provided on the straight line method at rates based upon the estimated useful lives of the property, generally not more than seven years except for leasehold land and buildings which are 50 years, the term of the lease. Costs of leasehold improvements and leased assets are amortized over the life of the related asset or the term of the lease, whichever is shorter. No depreciation and amortization is provided for construction-in-progress until it is put into use.

Revenue recognition -- Revenues are recognized as sales when merchandise is shipped. The Company permits the return of damaged or defective products and accepts limited amounts of product returns in certain other instances. Accordingly, the Company provides allowances for the estimated amounts of these returns at the time of revenue recognition, based on historical experience adjusted for known trends.

Income taxes -- Certain items are treated differently for financial reporting purposes than for income tax purposes. Pursuant to the provision of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," deferred income taxes are provided, under the liability method, in recognition of these temporary differences, using the tax rates expected to be in effect when the related temporary differences reverse.

Foreign currency translation -- Assets and liabilities of foreign operations are translated using period-end exchange rates. Revenues and expenses of foreign operations are translated using average monthly exchange rates. The impact of exchange rate changes is shown as "Cumulative Translation Adjustment" in shareholders' equity. Net losses from foreign exchange transactions of \$77 in nine months to July 31, 1995 and \$292 in nine months to July 31, 1994 are included in selling, general and administrative expenses.

Post-retirement and post-employment benefits -- The Company does not provide post-retirement benefits to employees and post-employment benefits are immaterial.

Warranty -- Future warranty costs are provided for at the time of revenue recognition based on the management's estimate by reference to historical experience adjusted for known trends.

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS -- (Cont'd)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Short-term investments -- During 1995, the Company adopted the provisions of Statement of Financial Accounting Standards No. 115 ("SFAS 115"), "Accounting for Certain Investments in Debt and Equity Securities". In accordance with SFAS 115, investment securities are classified as "trading", "held-to-maturity", or "available-for-sale". Debt and equity securities that will be held for resale in anticipation of short-term market movements are classified as trading securities, are stated at fair value, with unrealised holding gains and losses included in earnings. Debt securities are classified as held-to-maturity securities when the investor has the positive intent and ability to hold the securities until their maturity. Held-to-maturity securities are stated at their amortized cost. Debt securities not classified as trading or held-to-maturity are classified as available-for-sale. Available-for-sale securities are stated at fair value, with unrealized gains and losses, net of tax, reported as a separate component of shareholders equity. Management determines the appropriate classification of securities at the time of purchase and re-evaluates such classification as of each balance sheet date.

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS -- (Cont'd)

3. SHORT-TERM INVESTMENTS

At July 31, 1995, the Company had an investment in a pre-refunded tax-free municipal bond of \$3,012.

4. INVENTORIES

Inventories by major categories are summarized as follows:

	July 31, <u>1995</u> (unaudited)	October 31, <u>1994</u>
Raw materials	\$8,612	\$11,205
Work in progress	4,468	4,171
Finished goods	<u>21,906</u>	<u>17,846</u>
	<u>\$34,986</u>	<u>\$33,222</u>

5. RELATED PARTY TRANSACTIONS

The following table summarizes the transactions between the Company and related companies:

	Nine Months Ended July 31, <u>1995</u> (unaudited)	Nine Months Ended July 31, <u>1994</u> (unaudited)
John N. Hansen Company, Inc. Sales to	-	\$2,257
Rahn Sales Company, Inc. Sales to	-	\$ 78
Disc, Inc. Design fees paid	-	\$ 289 *

On May 20, 1994 Disc, Inc. became a wholly owned subsidiary of the Company.

* Disc Inc. was purchased from Mr. Robert Davids on May 20, 1994 by Radica Games and therefore all subsequent intercompany transactions have been eliminated.

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS -- (Cont'd)

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	July 31, 1995 (unaudited)	October 31, 1994
Land and buildings	\$9,918	\$5,663
Plant and machinery	4,602	3,269
Furniture and equipment	2,931	1,872
Leasehold improvements	832	504
Construction-in-progress	-	2,091
Pub Poker Units	493	-
Total	<u>18,776</u>	<u>13,399</u>
Less: Accumulated depreciation and amortization	<u>(2,706)</u>	<u>(1,668)</u>
Total	<u>\$16,070</u>	<u>\$11,731</u>

Additions, disposals and depreciation and amortization of property, plant and equipment for the periods shown are as follows:

	Nine Months Ended July 31, 1995 (unaudited)	Year Ended October 31, 1994
Additions	<u>\$5,453</u>	<u>\$9,937</u>
Disposals -- net book value	<u>\$ 74</u>	<u>\$ -</u>
Depreciation and amortization	<u>\$1,040</u>	<u>\$ 788</u>

Included in property, plant and equipment are assets acquired under capital leases with the following net book values:

	Nine Months Ended July 31, 1995 (unaudited)	Year Ended October 31, 1994
At cost:		
Plant and machinery	\$930	\$ 493
Less: accumulated depreciation	<u>(109)</u>	<u>(87)</u>
	<u>\$821</u>	<u>\$ 406</u>

Amortization of capital lease assets, which is included in depreciation and amortization expenses in the accompanying statements of income, was \$89 for the period ended July 31, 1995 and \$60 for the year ended October 31, 1994.

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS -- (Cont'd)

7. INCOME TAXES

The components of (loss)/income before taxes are as follows:

	Nine Months Ended July 31, 1995 (unaudited)	Nine Months Ended July 31, 1994 (unaudited)
United States	\$(2,988)	\$2,194
Foreign subsidiaries operating in :		
People's Republic of China	(255)	1,418
Hong Kong	77	6,090
	<u>\$(3,166)</u>	<u>\$9,702</u>

In accordance with the Hong Kong Inland Revenue Departmental Interpretation and Practice No.21, manufacturing operations carried out in the People's Republic of China ("PRC") by Hong Kong companies under a processing arrangement have been apportioned 50% of their income as not subject to Hong Kong income tax.

As the Group's PRC subsidiary is a sino-foreign joint venture enterprise, it is eligible for certain tax holidays and concessions. The PRC subsidiary was exempt from PRC profits tax during the period. In addition, under the existing processing arrangement and in accordance with the current tax regulations in the PRC, the manufacturing income generated in the PRC is not subject to PRC income taxes.

Income continuing to be generated from activities in Hong Kong is subject to Hong Kong income tax in full.

Prior to the reorganization in May 1994, Radica USA, the Company's principal operating subsidiary in the United States had elected to be treated as an S Corporation for U.S. Federal income tax purposes. As part of the reorganization the S Corporation Status of Radica USA was terminated and subsequently, its income has been subject to Federal income tax.

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS -- (Cont'd)

7. INCOME TAXES (Cont'd)

The (rebate)/provision for income taxes consists of the following:

	Nine Months Ended July 31, 1995 (unaudited)	Nine Months Ended July 31, 1994 (unaudited)
Hong Kong		
Current	\$18	\$750
Deferred	7	(232)
	<u>\$25</u>	<u>\$518</u>
United States and Canada		
State taxes on income	(62)	124
Federal income taxes	(998)	135
	<u>\$(1,060)</u>	<u>\$259</u>
	<u><u>\$(1,035)</u></u>	<u><u>\$777</u></u>

A reconciliation between the provision for income taxes computed by applying the statutory tax rates in the United States for 1995 and 1994 (Radica USA was not subject to Federal Income Tax before termination of its S Corporation status during fiscal 1994) to income before taxes and the actual provision for income taxes is as follows:

	Nine Months Ended July 31, 1995 (unaudited)	Nine Months Ended July 31, 1994 (unaudited)
Statutory Rate	34%	34%
(Credit)/Provision for income taxes at statutory rate on income for the period	\$(1,076)	\$3,299
State income taxes	(62)	124
International rate differences	(13)	(1,066)
Income not subject to taxation	87	(482)
Others	29	(1,098)
Income tax (Credit)/provision	<u><u>\$(1,035)</u></u>	<u><u>\$777</u></u>

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS -- (Cont'd)

7. INCOME TAXES (Cont'd)

Deferred income taxes reflect the net tax effect of deductible temporary differences between the amounts of assets and liabilities for income tax purposes compared with the respective amounts for financial statements purposes. At July 31, 1995 and October 31, 1994 deferred income taxes comprised:

	July 31, <u>1995</u> (unaudited)	October 31, <u>1994</u>
Deferred tax assets:		
Excess tax depreciation over financial reporting depreciation	\$ (78)	\$ (71)
Advertising allowances	130	130
Others	<u>129</u>	<u>129</u>
	<u>\$181</u>	<u>\$ 188</u>

Management believes that no valuation allowance against the net deferred tax asset is necessary.

8. SHORT-TERM BORROWINGS

These include borrowings in the form of trade acceptances, and overdrafts with various banks.

	July 31, <u>1995</u> (unaudited)	October 31, <u>1994</u>
Credit facilities available at end of period	\$32,709	\$23,484
Utilized at end of period	18,791	15,473
Weighted average interest rate on borrowings at end of period	8.82%	10.1%

Interest rates are generally based on the banks' prime rate. Utilised amount includes US\$4.2 million secured by guarantee provided by two major shareholders.

9. LONG-TERM DEBT

	July 31, <u>1995</u> (unaudited)	October 31, <u>1994</u>
Long-term debt consists of:		
Capital lease obligations, (interest at 11.7% to 11.8%)	\$538	\$ 200
Current portion of long-term debt	<u>(381)</u>	<u>(127)</u>
Long-term debt, less current portion	<u>\$157</u>	<u>\$ 73</u>

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS -- (Cont'd)

10. NOTE PAYABLE

At October 31, 1994, the Company had a note payable for \$3,000 which matured on May 4, 1995 and accrued interest at 6.06% payable on maturity. This note was repaid on May 4, 1995.

11. STOCK OPTIONS

The Company's 1994 Stock Option Plan (the "Stock Option Plan") provides for options to be granted for the purchase of an aggregate of 1,600,000 shares of common stock at per share prices not less than 100% of the fair market value at the date of grant as determined by the Compensation Committee of the Board of Directors. Options under this plan are generally exercisable ratably over five years from the date of grant unless otherwise provided.

In December 1993, an officer was granted an option under his employment agreement to purchase 188,000 shares of common stock of Radica Games at an exercise price of \$0.567 per share. Twenty percent of the stock options vest and become exercisable on each of the first five anniversaries of the date of the officer's employment agreement, which was December 13, 1993 and all of the options expire on October 31, 2003. During the nine months ended July 31, 1995, 160,000 options were granted under the Stock Option Plan exercisable at \$8.50 per share. In April 1995, three outside directors were granted an option under the plan to purchase 5,000 shares each of common stock of Radica Games at an exercise price of \$3.66 per share. These options become exercisable on April 3, 1996 and expire on April 3, 2004. At July 31, 1995, 1,191,000 options granted under the Stock Option Plan, exercisable at prices ranging from \$8.50 to \$8.53 per share, 15,000 options, exercisable at a price of \$3.66 and 188,000 options exercisable at \$0.567 granted under an employment agreement are outstanding.

12. OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK AND MAJOR CUSTOMERS

Accounts receivable of the Company are subject to a concentration of credit risk with customers in the retail sector. This risk is limited due to the large number of customers composing the Company's customer base and their geographic dispersion, though the Company has one customer which accounted for more than thirteen percent of net sales in the nine months ended July 31, 1995 and had two customers which accounted for more than fourteen and twelve percent of net sales in fiscal 1994. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers.

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS -- (Cont'd)

13. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of the Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments." The estimated fair value amounts have been determined by the Company, using available market information and appropriate valuation methodologies. The estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

The carrying amounts of cash and accounts receivable and accounts payable are reasonable estimates of their fair value.

At July 31, 1995, the Company has letters of credit outstanding totalling \$4,724 which guarantee various trade activities. The contract amount of the letters of credit is a reasonable estimate of the fair value since the value for each is fixed over the life of the commitment.

14. RETIREMENT PLAN

The Company has defined contribution retirement plans covering substantially all employees in Hong Kong. Under these plans, eligible employees may contribute amounts through payroll deductions which are not more than 5% of individual salary, supplemented by employer contributions ranging from 5% to 10% of individual salary depending on the years of service. The expenses related to these plans were \$106 and \$49 for the nine months ended July 31, 1995 and fiscal 1994 respectively.

15. LITIGATION

Ten purported class actions filed in various United States District Courts against the Company, various of its officers and directors, and the managing underwriters of the Company's initial public offering have been consolidated in the United States District Court for the District of Nevada under the caption in re Radica Games Limited Securities Litigation Master File No. CV-S-94-00653-DAE (LRL). Plaintiffs filed a consolidated complaint on November 4, 1994 that superseded all the complaints in the individual actions.

RADICA GAMES LIMITED
NOTES TO FINANCIAL STATEMENTS -- (Cont'd)

15. LITIGATION (Cont'd)

The named plaintiffs originally sought to represent a class consisting of purchasers of the Company's common stock in the initial public offering or in the open market from May 13 through July 22, 1994, and sought unquantified monetary damages and other relief against the defendants for alleged violations of Sections 11, 12(2), and 15 of the Securities Act of 1933, Sections 10b (and Rule 10b-5 thereunder), 20(a), and 20A(a) of the Securities Exchange Act of 1934, Sections 90.570, 90.660 and 90.660.4 of the Nevada Revised Statutes, and the common law of Nevada relating to the Company's registration statement and other public disclosures. As a consequence of an Order of the Court granting in part defendants' motion to dismiss the complaint and a stipulation of the parties, all of plaintiffs' claims other than those arising under the Securities Act of 1933, and limited to certain specified statements in the Company's registration statement, have been dismissed without prejudice. Pursuant to a stipulation of the parties, the Court has provisionally agreed to treat these remaining claims as class claims.

The Company believes the plaintiffs' remaining allegations under the Securities Act of 1993 based upon the registration statement are without merit and intends to defend the action vigorously.

16. SEGMENT INFORMATION

The Company operates in one principal industry segment: the design, development, manufacturing and distribution of a variety of non-gambling casino theme games. Over 90% of the Company's products are sold in the United States. Geographic financial information is as follows:

	Nine Months Ended July 31, 1995 (unaudited)	Nine Months Ended July 31, 1994 (unaudited)
Net sales:		
United States	\$36,124	\$29,655
PRC and Hong Kong	1,380	8,695
	<u>\$37,504</u>	<u>\$38,350</u>
Operating (loss)/income:		
United States	\$(2,524)	\$ 2,486
PRC and Hong Kong	(238)	7,083
	<u>\$(2,762)</u>	<u>\$9,569</u>
Identifiable assets:		
United States and Canada	\$29,683	\$17,678
PRC and Hong Kong	45,437	48,262
	<u>\$75,120</u>	<u>\$65,940</u>

A significant portion of PRC and Hong Kong net sales in the nine months ended July 31, 1995 and July 31, 1994 were export sales to the United States.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the attached financial statements and notes thereto, and with the quarterly report for the third quarter of 1994 on Form 6-K dated September 12, 1994, the audited financial statements, accounting policies and notes included in the Company's Annual Report to Shareholders for the fiscal year ended October 31, 1994, and in the Company's Annual Report on Form 20-F for such fiscal year as filed with the United States Securities and Exchange Commission.

RESULTS OF OPERATIONS -- QUARTER ENDED JULY 31, 1995
COMPARED TO THE QUARTER ENDED JULY 31, 1994

Net sales for the quarter ended July 31, 1995 of \$12.6 million decreased 14.3% from the \$14.7 million for the same quarter in 1994. Unit sales increased 17% from 1.7 million pieces in the third quarter 1994 to 2 million pieces in the third quarter 1995. New products included 2nd Chance Poker, a range of Acey Deucey (Red Dog) games, Let-It-Ride Poker and the 2800 series, a new range of low-end flip lid models. Sales of new products accounted for \$3.4 million of sales during the third quarter. Sales of handheld games accounted for 89% of net sales, up from 83% in the third quarter of 1994.

Net sales in the third quarter of 1995 were approximately \$2 million lower than those of the third quarter of 1994 due primarily to the effect of promotional pricing for certain lines of finished goods. This promotional pricing has resulted in fewer import orders being placed in Hong Kong and more product being purchased, later in the year, directly from the USA warehouse. The reduction in prices has also impacted net sales. In addition, approximately US\$3.0 million of shipments scheduled for July were shipped in August.

Gross profit for the third quarter of 1995 was \$3.3 million as compared to \$7.8 million for the third quarter of 1994, a decrease of \$4.5 million or 57.7%. The gross margin for the third quarter of 1995 of 25.8% has dropped from 53.4% for the same quarter in 1994. This decline is due primarily to a provision against obsolete raw material inventory of \$1 million against lines such as Keno games, the 1600 Tabletop series and the 1700 handheld "Winner" series of Monte Carlo games which are being phased out and replaced with new product lines. In addition, promotional pricing on certain product lines, the sale of some products manufactured in the fourth quarter of 1994 which had additional costs of subcontracting, together with the sales of certain lower margin models has impacted gross margins.

The gross margin for the third quarter of 1995 decreased 39.4% to 25.8% from 42.6% for the second quarter of 1995, mainly as a result of inventory provisions and promotional pricing.

**RESULTS OF OPERATIONS -- QUARTER ENDED JULY 31, 1995
COMPARED TO THE QUARTER ENDED JULY 31, 1994 (Cont'd)**

Operating loss for the third quarter of 1995 was \$2.49 million, down \$5.06 million or a decrease of 197% from the operating profit of \$2.57 million in the same quarter in 1994. The operating margin for the quarter was (19.7)%, compared to the 17.5% margin for the third quarter of 1994. Operating expenses increased \$0.4 million from \$5.3 million in the third quarter of 1994 to \$5.7 million in the third quarter of 1995 primarily due to an increase in infra-structure throughout the Group offset by lower commissions due to the lower sales volumes. Commissions paid to sales representatives decreased \$300,000 to approximately \$536,000 in the third quarter of 1995, from \$836,000 in the third quarter of 1994. Compensation expenses increased \$516,000 to \$1.68 million in the third quarter of 1995 from \$1.16 million in the third quarter of 1994 due to staff increases in the Hong Kong and the U.S.A. operations. Advertising expenses increased \$195,000 to \$419,000 from \$224,000 in the third quarter of 1994. Professional fees increased \$131,000 to \$380,000 from \$249,000 in the third quarter of 1994 (the majority of these fees are provisions for legal fees in connection with the law suits outstanding against the Company).

The effective blended tax rate for the third quarter of 1995 was an effective tax credit of 27.2% compared to a 9.7% effective tax rate for the same quarter in 1994. This is due to a net loss in the distribution operations of Radica U.S.A. allowing a rebate of taxation from the second quarter combined with the 0% effective rate on profits from the China manufacturing.

Net loss for the third quarter of 1995 was \$1.91 million, down from net income of \$2.46 million in the third quarter of 1994, a decrease of 178%. The net loss per common share in the third quarter of 1995 was \$0.08 as compared to net income per share of \$0.11 for the third quarter of 1994.

CAPITAL RESOURCES AND LIQUIDITY

Cash and cash equivalents totalled \$9.3 million at July 31, 1995, down \$1.7 million from year-end 1994. Working capital at July 31, 1995 was \$33.7 million, a \$6 million decrease from working capital of \$39.7 million at October 31, 1994. The decrease in working capital is due primarily to the payment of construction costs for the Group's new factory in Tai Ping, China which was completed in May 1995. The ratio of current assets to current liabilities increased to 2.35 at July 31, 1995 from 2.1 at October 31, 1994. This increase in the current ratio is due to repayment of the substantial year end trade finance loans.

Inventories at July 31, 1995 totalled \$34.9 million compared to \$33.2 million at October 31, 1994. This increase is due to lower than expected sales combined with the effect of the promotional pricing resulting in some of the usual third quarter import sales moving to fourth quarter domestic sales.

Short-term borrowings of \$18.8 million at July 31, 1995 were up from \$15.5 million at October 31, 1994. This increase is due primarily to working capital requirements.

The Company believes that its existing cash and cash equivalents and cash generated from operations are sufficient to satisfy its current anticipated working capital needs.

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings

See Note 15 of Notes to Financial Statements, included herein.

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None.

(b) Reports on Form 8-K

None.

**RADICA GAMES LIMITED
(NASDAQ SYMBOL -- RADAF)****RADICA GAMES LIMITED
REPORTS MANAGEMENT CHANGES****FOR IMMEDIATE RELEASE
SEPTEMBER 11, 1995****CONTACT: JON N. BENGTON
(702) 829-8643**

(Reno, Nevada) Radica Games Limited (NASDAQ RADAF) reported today the appointment of Jon N. Bengtson as the Chief Operating Officer. Mr. Bengtson was formerly the company's Chief Financial Officer and will continue as President of Radica USA Ltd.

David C.W. Howell has been appointed Chief Financial Officer for the company and will continue as its Chief Accounting Officer. Mr. Howell will continue to be based in Hong Kong.

Jim Sutter, Chairman of the Board of Directors, has resigned his position as Executive Vice President of Sales and Marketing to pursue personal interests. Mr. Sutter will continue his active role as Chairman of the Board of Directors.

"Jim Sutter has spent much of his professional life living in Asia helping to build Radica. We look forward to his continued stewardship as Chairman and wish him the best in his future endeavors.", said Bob Davids, President and CEO.

--END--

CORRESPONDENCE ADDRESS: 5301-D LONGLEY LANE • SUITE 157 • RENO • NEVADA • 89511-1811 / (800) 880-6402 / (702) 829-8643 • FAX: (702) 829-8688

**REGISTERED ADDRESS: CLARENDON HOUSE • CHURCH STREET • HAMILTON HM 11 • BERMUDA
INCORPORATED WITH LIMITED LIABILITY IN BERMUDA**

PG 24 29

**RADICA GAMES LIMITED
(NASDAQ SYMBOL -- RDAF)****RADICA GAMES LIMITED
REPORTS RESULTS FOR THIRD
QUARTER ENDED JULY 31, 1995****FOR IMMEDIATE RELEASE****CONTACT: JON N. BENGTSON****SEPTEMBER 11, 1995****(702) 829-8643**

(Reno, Nevada) Radica Games Limited (NASDAQ RDAF) reported today net sales for the third quarter of fiscal 1995 of \$12.6 million a 14.3% decline from \$14.7 million for the third quarter of fiscal 1994. Net loss for the third quarter was \$1.9 million, down from net income of \$2.5 million in the same period last year. The net loss per common share in the third quarter was \$0.08 compared to net income per share of \$0.11 for the third quarter of 1994.

The third quarter decline in net sales resulted primarily from promotional pricing incurred in the inventory reduction program and lower pricing to large retailers as a result of their higher volumes. Unit sales increased 17% in the third quarter of fiscal 1995 over the comparable period last year.

Gross profit for the third quarter of fiscal 1995 declined 57.7% to \$3.3 million compared to \$7.8 million for the third quarter of fiscal 1994. The gross margin for the third quarter was 25.8% compared to 53.4% for the same quarter in 1994.

The decline in gross margin over last year's third quarter was due primarily to a provision against obsolete raw material inventory of \$1.0 million for game models that are being phased out of the product line. In addition, prices were lower due to promotional pricing to reduce inventories and lower pricing for higher volume retailers. Third quarter sales also included higher cost product that was manufactured in the fourth quarter of 1994.

CORRESPONDENCE ADDRESS: 5301-D LONGLEY LANE • SUITE 157 • RENO • NEVADA • 89511-1811 / (800) 880-6402 / (702) 829-8643 • FAX: (702) 829-8688

REGISTERED ADDRESS: CLARENDON HOUSE • CHURCH STREET • HAMILTON HM 11 • BERMUDA
INCORPORATED WITH LIMITED LIABILITY IN BERMUDA

Operating loss for the third quarter of 1995 was \$2.5 million compared to operating income of \$2.6 million for the same quarter last year. Operating expenses increased to \$5.8 million from \$5.3 million in the third quarter of fiscal 1994. These increases were primarily due to a 17% increase in unit sales volume.

"The company continues to focus on cost efficiency improvements throughout the organization. We anticipate the transition of all national distribution operations to an outsource vendor will be completed by fiscal year end which should substantially reduce our shipping and handling costs. We have recently reduced staffing levels in both the domestic and Asian operations and expect to fully close the Mexico manufacturing facility in October. The company has experienced substantial costs in storing and handling excess inventory. These costs are declining as excess inventory is sold through our promotional pricing program," said Bob Davids, President and CEO.

"We continue to aggressively pursue the reduction of inventories to normal operating levels. The promotional pricing program is effectively gaining incremental shelf space in retail outlets and has opened new outlets to our products. We expect to have the majority of the excess inventory reduction completed by January 1996, the end of our 1996 first quarter. The

promotional pricing during that period will lower our gross margins from historical levels," said Davids.

Davids reported that the placement of Pub Poker™ games has been slower than anticipated. The general pub market has been very receptive to the game but pub owners are not accustomed to providing free entertainment to their patrons. However as pubs begin to charge patrons for the use of the game the owners have been much more receptive and placements have increased. Pub Poker™ has been placed in seven states and is currently being tested in Ontario, Canada

RADICA GAMES LIMITED
CONSOLIDATED STATEMENTS OF INCOME

*(Dollars in thousands,
except per share data)*

	NINE MONTHS ENDED JULY 31,		THREE MONTHS ENDED JULY 31,	
	1995	1994	1995	1994
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	\$	\$	\$	\$
REVENUES:				
Net Sales:				
Net sales to unaffiliated customers	37,504	36,015	12,662	14,669
Net sales to related parties	-	2,335	-	-
<i>Total net sales</i>	<u>37,504</u>	<u>38,350</u>	<u>12,662</u>	<u>14,669</u>
Cost of sales	(23,338)	(18,108)	(9,401)	(6,835)
Gross Profit	<u>14,166</u>	<u>20,332</u>	<u>3,261</u>	<u>7,834</u>
OPERATING EXPENSES:				
Selling, general and administrative expenses	(15,212)	(9,561)	(5,157)	(4,699)
Research and development	(1,716)	(1,202)	(595)	(568)
<i>Total operating expenses</i>	<u>(16,928)</u>	<u>(10,763)</u>	<u>(5,752)</u>	<u>(5,267)</u>
OPERATING (LOSS) INCOME	(2,762)	9,569	(2,491)	2,567
NET INTEREST (EXPENSE) INCOME	(404)	133	(129)	151
(LOSS)/INCOME BEFORE INCOME TAXES	(3,166)	9,702	(2,620)	2,718
INCOME TAXES	1,035	(777)	713	(263)
NET (LOSS)/INCOME	(2,131)	8,925	(1,907)	2,455
NET (LOSS)/INCOME PER SHARE	(0.09)	0.42	(0.08)	0.11
AVERAGE NUMBER OF SHARES OUTSTANDING	22,780,000	21,006,000	22,780,000	22,449,000

**RADICA GAMES LIMITED
CONSOLIDATED BALANCE SHEET**

ASSETS

(Dollars in thousands)

	JULY 31, 1995 (unaudited) \$	OCT. 31, 1994 \$
CURRENT ASSETS:		
Cash and cash equivalents	9,252	11,038
Short-term investments	3,099	3,230
Accounts receivable, net of allowances for doubtful accounts of \$51 and \$96 in 1995 and 1994 and estimated customer returns of \$254 and \$138 in 1995 and 1994	9,296	25,977
Inventories	34,986	33,222
Prepaid expenses and other current assets	858	1,698
Income taxes receivable	1,271	-
Total current assets	<u>58,762</u>	<u>75,165</u>
PROPERTY, PLANT AND EQUIPMENT, NET	16,070	11,731
DEFERRED INCOME TAXES	181	188
OTHER ASSETS	107	242
Total Assets	<u><u>75,120</u></u>	<u><u>87,326</u></u>

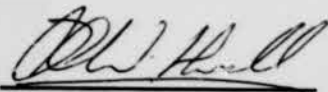
LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Short-term borrowings	18,791	15,473
Current portion of long-term debt	381	127
Accounts payable	3,060	10,401
Note payable	-	3,000
Accrued payroll and employee benefits	255	355
Accrued expenses	2,565	3,926
Income taxes payable	-	2,150
Total current liabilities	<u>25,052</u>	<u>35,432</u>
LONG-TERM DEBT	<u>157</u>	<u>73</u>
STOCKHOLDERS' EQUITY		
Common stock par value \$0.01 each, 100,000,000 shares authorized, 22,780,000 shares outstanding	228	228
Additional paid-in capital	28,350	28,129
Retained earnings	21,312	23,443
Cumulative translation adjustment	21	21
Total stockholders' equity	49,911	51,821
Total Liabilities and Stockholders' Equity	<u><u>75,120</u></u>	<u><u>87,326</u></u>

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RADICA GAMES LIMITED
(Registrant)

Date: September 14, 1995

By: 

David C.W. Howell
Executive Vice President
Chief Financial Officer

FILMED

SEPTEMBER 1995

DISCLOSURE®
Information Services, Inc.

E N D

<PAGE>

Sullivan & Cromwell
444 South Flower Street
Los Angeles, California 90071-2901
Telephone: (213) 955-8000
Facsimile: (213) 683-0457

June 18, 1996

VIA EDGAR

Securities and Exchange Commission,
450 Fifth Street, N.W.,
Washington, D.C. 20549.

Re: Radica Games Limited Report on Form 6-K
(Registration No. 0-23696)

Ladies and Gentlemen:

On behalf of Radica Games Limited, a company incorporated in Bermuda (the "Company"), we attach for furnishing to the Securities and Exchange Commission the Company's report on Form 6-K (the "Form 6-K").

Should you have any questions or comments relating to the Form 6-K, please do not hesitate to call the undersigned at (213) 955-8037 or, in my absence, Julius Christensen at (213) 955-8082.

Very truly yours,

/s/ Frank H. Golay, Jr.
Frank H. Golay, Jr.

(Attachments)

cc: Jon Bengtson
(Radica Games Limited)

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of September, 1996

RADICA GAMES LIMITED
(Translation of registrant's name into English)

Suite R, 6/F., 2-12 Au Pui Wan Street, Fo Tan, Hong Kong
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or 40-F

Form 20-F

☒

Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes

No

☒

If "yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

Contents:

1. Quarterly Report
2. Press Release dated September 9, 1996

This Report on Form 6-K shall be deemed to be incorporated by reference into the Registrant's Registration Statement on Form S-8 (no. 33-86960).

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QUARTERLY REPORT *

For the quarterly period ending July 31, 1996

Commission File Number 0-23696

RADICA GAMES LIMITED

(Exact name of registrant as specified in charter)

Bermuda
(Country of Incorporation)

N/A
(I.R.S. Employer Identification No.)

Suite R, 6/F., 2-12 Au Pui Wan Street, Fo Tan, Hong Kong
(Address of principal executive offices)
Registrant's telephone number, including area code: (852) 2693 2238

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ____

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at September 9, 1996
Common Stock, par value \$0.01 per share	20,680,000

* As a foreign private issuer, the registrant is not required to file reports on Form 10-Q. It intends to make voluntary quarterly reports to its stockholders which generally follow the Form 10-Q format. Such reports, of which this is one, are furnished to the Commission pursuant to Form 6-K.

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PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements

RADICA GAMES LIMITED

FORM 6-K

The accompanying consolidated financial statements have been prepared by the Company, without audit, and reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods. The statements have been prepared in accordance with the regulations of the Securities and Exchange Commission (the "SEC"), but omit certain information and footnote disclosures necessary to present the statements in accordance with accounting principles generally accepted in the United States of America.

These financial statements should be read in conjunction with the financial statements, accounting policies and notes included in the Form 20F for the year ended October 31, 1995 as filed with the Securities and Exchange Commission. Management believes that the disclosures are adequate to make the information presented herein not misleading.

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<TABLE>

<CAPTION>

RADICA GAMES LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS(US Dollars in thousands,
NINE MONTHS ENDED

THREE MONTHS ENDED

except per share data)
JUL. 31,

JUL. 31,

1996	1995	1996	1995
-----		-----	-----
(unaudited)	(unaudited)	(unaudited)	(unaudited)
REVENUES:		\$	\$
<S>		<C>	<C>
<C>	<C>		
Net sales		11,989	12,662
24,959	37,504		
Cost of sales		(8,836)	(9,401)
(18,747)	(23,338)	-----	-----
Gross profit		3,153	3,261
6,212	14,166	-----	-----
-----	-----		
OPERATING EXPENSES:			
Selling, general and			
administrative expenses		(2,135)	(5,123)
(6,646)	(15,070)		
Research and development		(477)	(595)
(1,280)	(1,716)	-----	-----
Total operating expenses		(2,612)	(5,718)
(7,926)	(16,786)	-----	-----
-----	-----		
OPERATING INCOME/(LOSS) FROM			
CONTINUING OPERATIONS		541	(2,457)
(1,714)	(2,620)		
NET INTEREST INCOME/(EXPENSE)		23	(129)
(124)	(404)	-----	-----
-----	-----		
INCOME/(LOSS) FROM CONTINUING			
OPERATIONS BEFORE INCOME TAXES			
AND UNUSUAL ITEM		564	(2,586)

(1,838)	(3,024)		
UNUSUAL ITEM (Note 3)		-	-
709	-		
-----	-----	-----	-----
INCOME/(LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		564	(2,586)
(1,129)	(3,024)		
INCOME TAXES (Note 7)		104	713
91	1,035		
-----	-----	-----	-----
INCOME/(LOSS) FROM CONTINUING OPERATIONS AFTER INCOME TAXES		668	(1,873)
(1,038)	(1,989)		
-----	-----	-----	-----
DISCONTINUED OPERATIONS: (Note 8)			
LOSS FROM OPERATION OF PUB POKER BUSINESS		(38)	(34)
(256)	(142)		
PROVISION FOR ESTIMATED LOSSES DURING PHASE-OUT PERIOD		(1,456)	-
(1,456)	-		
-----	-----	-----	-----
NET LOSS		(826)	(1,907)
(2,750)	(2,131)		
=====	=====	=====	=====
EARNINGS/(LOSS) PER SHARE FROM CONTINUING OPERATIONS		0.03	(0.08)
(0.05)	(0.09)		
NET LOSS PER SHARE		(0.04)	(0.08)
(0.13)	(0.09)		
AVERAGE NUMBER OF SHARES OUTSTANDING		20,680,000	22,780,000
21,691,679	22,780,000		

=====

</TABLE>

See accompanying notes to the consolidated financial statements.

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RADICA GAMES LIMITED
CONSOLIDATED BALANCE SHEETS

ASSETS

(US Dollars in thousands except share data)	JUL. 31,	OCT. 31,
	1996	1995
	-----	-----
	(unaudited)	
	\$	\$
Cash and cash equivalents	5,004	7,757
Short-term investments (Note 4)	76	3,228
Accounts receivable, net of allowances for doubtful accounts of \$553 and \$1,572 in 1996 and 1995 and estimated customer returns of \$285 and \$1,790 in 1996 and	7,637	10,242
Inventories, net of provision of \$11,472 in 1996 and \$11,873 in 1995 (Note 5)	13,663	16,472
Prepaid expenses and other current assets	549	531
Income taxes receivable	--	1,306
	-----	-----
	26,929	39,536
	13,277	14,468
	29	29
	--	21
	-----	-----
	40,235	54,054
	=====	=====
Short-term borrowings (Note 9)	5,289	13,970
Current portion of long-term debt (Note 10)	235	371
Accounts payable	3,978	3,006
Accrued payroll and employee benefits	165	241
Accrued expenses	2,977	6,070
Income taxes payable/receivable	17	--

	-----	-----
	12,661	23,658
	-----	-----
	5	99
	-----	-----
Common stock		
par value \$0.01 each, 100,000,000 shares		
authorized, 20,680,000 shares outstanding	207	228
Additional paid-in capital	28,371	28,328
Retained (deficit)/earnings	(1,030)	1,720
Cumulative translation adjustment	21	21
	-----	-----
	27,569	30,297
	40,235	54,054
	=====	=====

See accompanying notes to the consolidated financial statements.

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RADICA GAMES LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS

(US Dollars in thousands)

	NINE MONTHS ENDED JUL. 31,	
	-----	-----
	1996	1995
	-----	-----
	(unaudited)	(unaudited)
	\$	\$
Cash flow from operating activities:		
Net loss	(2,750)	(2,131)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Deferred income taxes	--	7
Depreciation and amortization	1,193	1,077
(Gain)/Loss on disposal of property, plant and equipment	(709)	74
Write off of fixed assets	563	--
Others	--	366
Provision for compensation expense related to stock options	22	--
Changes in assets and liabilities:		
Accounts receivable	2,605	16,681

Inventories	2,809	(1,764)
Prepaid expenses and other current assets	(18)	840
Accounts payable	972	(7,341)
Accrued payroll and employee benefits	(76)	(100)
Accrued expenses	(3,093)	(1,361)
Income taxes receivable/payable	1,323	(3,421)
Total adjustments	5,591	5,058
Net cash provided by operating activities	2,841	2,927
Cash flow from investing activities:		
Purchase of property, plant and equipment	(764)	(5,453)
Decrease/(Increase) in other assets	--	98
Proceeds from the sales of short-term investments	3,152	(14)
Proceeds from sale of property, plant and equipment	929	--
Net cash provided by/(used in) investing activities	3,317	(5,369)

(continued)

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RADICA GAMES LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS

(US Dollars in thousands)

NINE MONTHS ENDED
JUL. 31,

	1996	1995
	(unaudited)	(unaudited)
	\$	\$
(Continued from previous page)		
Cash flow from financing activities:		
(Decrease)/Increase in short-term borrowings	(8,681)	3,318
Repayment of long-term debt	(230)	(150)
Funds from sale and leaseback arrangements	--	488
Repayment of note payable	--	(3,000)

	-----	-----
Net cash used in financing activities	(8,911)	656
	-----	-----
Net decrease in cash and cash equivalents	(2,753)	(1,786)
Cash and cash equivalents:		
Beginning of period	7,757	11,038
	-----	-----
End of period	5,004	9,252
	=====	=====
Supplementary disclosures of cash flow information:		
Cash paid during the period for:		
Interest	325	979
Income taxes	66	2,379
Cash received during the period for:		
Income taxes	(1,480)	--

See accompanying notes to the consolidated financial statements.

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RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (US dollars in thousands)

1. BASIS OF CONSOLIDATION AND PREPARATION OF FINANCIAL STATEMENTS

The consolidated financial statements include the accounts of the Company and all subsidiaries. All significant intra-group transactions and balances have been eliminated on consolidation.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and are presented in U.S. dollars as the Company's sales are predominantly denominated in U.S. dollars.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents -- Cash and cash equivalents include cash on hand, cash accounts, interest-bearing savings accounts, and time certificates of deposit with a maturity at purchase date of three months or less.

Inventories -- Inventories are stated at the lower of cost, determined by the weighted average method, or market.

Depreciation and amortization of property, plant and equipment -- Depreciation is provided on the straight line method at rates based upon the estimated useful lives of the property, generally not more than seven years except for leasehold land and buildings which are 50 years, the term of the lease. Costs of leasehold improvements and leased assets are amortized over the life of the related asset or the term of the lease, whichever is shorter.

Mold costs -- The Company expenses all mold costs in the year of purchase or for internally produced molds, in the year of construction.

Revenue recognition -- Revenues are recognized as sales when merchandise is shipped. The Company permits the return of damaged or defective products and accepts limited amounts of product returns in certain other instances. Accordingly, the Company provides allowances for the estimated amounts of these returns at the time of revenue recognition, based on historical experience adjusted for known trends.

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RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued) (US dollars in thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Short-term investments -- During 1995, the Company adopted the provisions of Statement of Financial Accounting Standards No. 115 ("SFAS 115"), "Accounting for Certain Investments in Debt and Equity Securities". In accordance with SFAS 115, investment securities are classified as "trading", "held-to-maturity", or "available-for-sale". Debt and equity securities that will be held for resale in anticipation of short-term market movements are classified as trading securities and are stated at fair value, with unrealized holding gains and losses included in earnings. Debt securities are classified as held-to-maturity securities when the

company has the positive intent and ability to hold the securities until their maturity. Held-to-maturity securities are stated at their amortized cost. Debt securities not classified as trading or held-to-maturity are classified as available-for-sale. Available-for-sale securities are stated at fair value, with unrealized gains and losses, net of tax, reported as a separate component of shareholders equity. Management determines the appropriate classification of securities at the time of purchase and re-evaluates such classification as of each balance sheet date.

Income taxes -- Certain items are treated differently for financial reporting purposes than for income tax purposes. Pursuant to the provision of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," deferred income taxes are provided, under the liability method, in recognition of these temporary differences, using the tax rates expected to be in effect when the related temporary differences reverse.

Foreign currency translation -- Assets and liabilities of foreign operations are translated using year-end exchange rates. Revenues and expenses of foreign operations are translated using average monthly exchange rates. The impact of exchange rate changes is shown as "Cumulative Translation Adjustment" in shareholders' equity. Net losses from foreign exchange transactions of \$100 in the quarter ended July 31, 1996 and \$77 in the quarter ended July 31, 1995 are included in selling, general and administrative expenses.

Post-retirement and post-employment benefits -- The Company does not provide post-retirement benefits to employees and post-employment benefits are immaterial.

Warranty -- Future warranty costs are provided for at the time of revenue recognition based on management's estimate by reference to historical experience adjusted for known trends.

3. UNUSUAL ITEM

During the second quarter of 1996, a gain of \$709 was made from the sale of a property in Hong Kong.

4. SHORT-TERM INVESTMENTS

At October 31, 1995, the Company had an investment in a money market fund of \$3,000 which was subsequently sold in December 1995.

(US dollars in thousands)

5. INVENTORIES

Inventories by major categories are summarized as follows:

	July 31, ----- 1996 ----- (unaudited)	October 31, ----- 1995 -----
Raw materials	\$ 2,612	\$ 4,036
Work in progress	3,587	2,576
Finished goods	7,464	9,860
	-----	-----
	\$13,663	\$16,472
	=====	=====

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	July 31, ----- 1996 ----- (unaudited)	October 31, ----- 1995 -----
Land and buildings	\$ 9,883	\$ 9,628
Plant and machinery	2,972	2,958
Furniture and equipment	2,898	2,849
Leasehold improvements	1,180	1,130
Pub Poker Units	--	476
	-----	-----
Total	\$16,933	\$17,041
Less: Accumulated depreciation and amortization	(3,656)	(2,573)
	-----	-----
Total	\$13,277	\$14,468
	=====	=====

Additions, disposals and depreciation and amortization of property, plant and equipment for the periods shown are as follows:

Nine Months Ended July 31, 1996 -----	Year Ended October 31, 1995 -----
--	---

	(unaudited)	
Additions	\$ 764	\$ 6,399
Disposals -- net book value	220	642
Write off of fixed assets	563	1,478
Depreciation and amortization	1,172	1,542

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RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued) (US dollars in thousands)

6. PROPERTY, PLANT AND EQUIPMENT (Continued)

Included in property, plant and equipment are assets acquired under capital leases with the following net book values:

	Nine Months Ended July 31, 1996 ----- (unaudited)	Year Ended October 31, 1995 -----
At cost:		
Plant and machinery	\$ 968	\$ 968
Less: accumulated depreciation	(301)	(156)
	----- \$ 667 =====	----- \$ 812 =====

Amortization of capital lease assets, which is included in depreciation and amortization expenses in the accompanying statements of income, was \$145 for the period ended July 31, 1996 and \$136 for the year ended October 31, 1995.

7. INCOME TAXES

The components of loss from continuing operations before income taxes are as follows:

Nine Months Ended July 31, 1996	Nine Months Ended July 31, 1995
---	---

	-----	-----
United States	(unaudited)	(unaudited)
	\$(1,418)	\$(2,846)
Foreign subsidiaries operating in:		
People's Republic of China	374	(255)
Hong Kong	(85)	77
	-----	-----
	\$(1,129)	\$(3,024)
	=====	=====

In accordance with the Hong Kong Inland Revenue Departmental Interpretation and Practice Note No. 21, manufacturing operations carried out in the People's Republic of China ("PRC") by Hong Kong companies under a processing arrangement have been apportioned 50% of their income as not subject to Hong Kong income tax.

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RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued) (US dollars in thousands)

7. INCOME TAXES (Continued)

As the Company's PRC subsidiary is a sino-foreign joint venture enterprise, it is eligible for certain tax holidays and concessions. The PRC subsidiary incurred a loss during the 1995 period. In addition, under the existing processing arrangement and in accordance with the current tax regulations in the PRC, manufacturing income generated in the PRC is not subject to PRC income taxes.

The credit/(provision) for income taxes consists of the following:

	Nine Months Ended July 31, 1996	Nine Months Ended July 31, 1995
	-----	-----
	(unaudited)	(unaudited)
Hong Kong		
Current	\$ 104	\$ (18)

Deferred	--	(7)
	-----	-----
	\$ 104	\$ (25)
	-----	-----
United States		
Federal income taxes	\$ (13)	\$ 998
State income taxes	--	62
Deferred	--	--
	-----	-----
	\$ (13)	\$ 1,060
	-----	-----
	\$ 91	\$ 1,035
	=====	=====

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RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued) (US dollars in thousands)

7. INCOME TAXES (Continued)

A reconciliation between the credit for income taxes computed by applying the statutory tax rates in the United States for 1996 and 1995 to loss before income taxes and the actual (provision)/credit for income taxes is as follows:

	Nine Months Ended July 31, 1996	Nine Months Ended July 31, 1995
	-----	-----
	(unaudited)	(unaudited)
US Statutory Rate	34%	34%
Credit for income taxes at statutory rate on loss for the period	\$ 384	\$ 1,028
State income taxes	--	62
International rate differences	15	13
Accounting losses for which deferred income tax cannot be recognised	(326)	(87)
Other	18	19
	-----	-----

Income tax credit	\$ 91	\$ 1,035
	=====	=====

Deferred income taxes reflect the net tax effect of temporary differences between the amounts of assets and liabilities for income tax purposes compared with the respective amounts for financial statement purposes. At July 31, 1996 and October 31, 1995 deferred income taxes comprised:

	July 31, 1996 ----- (unaudited)	October 31, 1995 -----
Deferred tax assets (liabilities):		
Excess of tax over financial reporting depreciation	\$ (79)	\$ (79)
Tax losses	1,853	--
Bad debt allowance	203	517
Advertising allowances	--	123
Inventory obsolescence reserve	2,930	4,066
Other	851	955
	-----	-----
	\$ 5,758	\$ 5,582
Valuation allowance	(5,729)	(5,553)
	-----	-----
	\$ 29	\$ 29
	=====	=====

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RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued) (US dollars in thousands)

8. DISCONTINUED OPERATIONS

On July 31, 1996 the Company adopted a plan to discontinue its Pub Poker operations. All products and raw materials relating to Pub Poker will be disposed of by October 31, 1996 either by means of sale at discounted prices or by scrapping. The loss from Pub Poker operations has been accounted for as discontinued operations and the prior year financial statement has been restated to reflect the discontinued operations. As at July 31, 1996 the following assets which have been provided for and form a part of the loss from cessation of business are the only remaining current and fixed assets:

Raw materials	\$1,040
Finished Goods	379
"Pub Runner" computer software	7
Other	30

	\$1,456
	=====

In 1995 and 1994, the Pub Poker business produced operating losses of \$233 and \$20 respectively. Revenues from Pub Poker for the nine months ended July 31, 1996 and the years ended October 31, 1995 and October 31, 1994 were \$14, \$0 and \$0 respectively.

9. SHORT-TERM BORROWINGS

These include borrowings in the form of trade acceptances, and overdrafts with various banks.

	July 31, 1996 ----- (unaudited)	October 31, 1995 -----
Credit facilities available at end of period	\$ 7,633	\$ 22,394
Utilized at end of period	\$ 5,288	\$ 13,970
Weighted average interest rate on borrowings at end of period	7.97%	8.74%

Interest rates are generally based on the banks' prime rate.

10. LONG-TERM DEBT

	July 31, 1996 ----- (unaudited)	October 31, 1995 -----
Long-term debt consists of:		
Capital lease obligations (interest at 13.35% to 13.80%)	\$ 240	\$ 470
Current portion of long-term debt	(235)	(371)
	-----	-----
Long-term debt, less current portion	\$ 5	\$ 99
	=====	=====

RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
(US dollars in thousands)

11. STOCK OPTIONS

The Company's 1994 Stock Option Plan (the "Stock Option Plan") provides for options to be granted for the purchase of an aggregate of 1,600,000 shares of common stock at per share prices not less than 100% of the fair market value at the date of grant as determined by the Compensation Committee of the Board of Directors. Options under this plan are generally exercisable ratably over five years from the date of grant unless otherwise provided.

In January 1996, due to the reduced market price of Radica Games common stock, the company offered active employees holding outstanding options the opportunity to exchange them for stock options at an exercisable price equal to the fair market value at that time. As a result of the offer, holders of 916,000 options at an exercise price of \$ 8.50 returned their options for cancellation and 916,000 options at an exercise price of \$1.375 were granted in exchange. In the third quarter of 1996, 4,000 options and 1,000 options at an exercise price of \$1.375 were canceled and vested respectively.

At July 31, 1996, 991,000 options granted under the Stock Option Plan, exercisable at a price of \$1.375, 15,000 options, exercisable at a price of \$1.50, 34,000 options, exercisable at a price of \$8.50, 15,000 options, exercisable at a price of \$3.66, 90,000 options, exercisable at a price of \$11.00 and 75,200 options, exercisable at a price of \$0.567 granted under an employment agreement, are outstanding.

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RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
(US dollars in thousands)

12. OFF-BALANCE SHEET RISK AND CONCENTRATIONS OF CREDIT RISK AND MAJOR CUSTOMERS

Accounts receivable of the Company are subject to a concentration of credit risk with customers in the retail sector. This risk is limited due to the large number of customers composing the Company's customer base and their geographic dispersion, though the Company has two customers which accounted

for more than twenty and twenty-three percent of net sales in the nine months ended July 31, 1996 and had three customers which accounted for more than nineteen, thirteen and eleven percent of net sales in fiscal 1995. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers.

13. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of the Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments." The estimated fair value amounts have been determined by the Company, using available market information and appropriate valuation methodologies. The estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

The carrying amounts of cash and short-term investments, accounts receivable, accounts payable and a note payable are reasonable estimates of their fair value.

At July 31, 1996, the Company has letters of credit outstanding totaling \$775 which guarantee various trade activities. The contract amount of the letters of credit is a reasonable estimate of the fair value since the value for each is fixed over the life of the commitment.

14. RETIREMENT PLAN

The Company has defined contribution retirement plans covering substantially all employees in Hong Kong. Under these plans, eligible employees may contribute amounts through payroll deductions which are not more than 5% of individual salary, supplemented by employer contributions ranging from 5% to 10% of individual salary depending on the years of service. The expenses related to these plans were \$39 and \$83 for the nine months ended July 31, 1996 and fiscal 1995 respectively.

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RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
(US dollars in thousands)

15. LITIGATION

Ten purported class actions filed in various United States District Courts against the Company, various of its officers and directors, and the managing underwriters of the Company's initial public offering have been consolidated in the United States District Court for the District of Nevada under the caption In re Radica Games Limited Securities Litigation, Master File No. CV-S-94-00653-DAE (LRL). Plaintiffs filed a consolidated complaint on November 4, 1994 that superseded all the complaints in the individual actions.

The named plaintiffs originally sought to represent a class consisting of purchasers of the Company's common stock in the initial public offering or in the open market from May 13 through July 22, 1994 and sought unquantified monetary damages and other relief against the defendants for alleged violations of Sections 11, 12(2), and 15 of the Securities Act of 1933, Sections 10b (and Rule 10b-5 thereunder), 20(a), and 20A(a) of the Securities Exchange Act of 1934, Sections 90.570, 90.660 and 90.660.4 of the Nevada Revised Statutes, and the common law of Nevada relating to the Company's registration statement and other public disclosures. As a consequence of an Order of the Court granting in part defendants' motion to dismiss the complaint and a stipulation of the parties, all of plaintiff's claims other than those arising under the Securities Act of 1993, and limited to certain specified statements in the Company's registration statement, were dismissed without prejudice. Pursuant to a stipulation of the parties, the Court provisionally agreed to treat the remaining claims as class claims.

After the close of discovery, plaintiffs moved for leave to amend their complaint to add allegations with respect to an additional claimed omission in the registration statement. Shortly thereafter, the Company moved for summary judgment seeking dismissal of the complaint. Following a hearing on July 31, 1996, the Court entered an Order (i) denying plaintiffs' motion to amend the complaint and (ii) granting the Company's (and the other defendants') motion for summary judgment, and on August 9, 1996 the Court entered final judgment dismissing the action. Plaintiffs have moved for reconsideration of the grant of summary judgment against them. They also have a right of appeal to the United States Court of Appeals for the Ninth Circuit.

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RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
(US dollars in thousands)

16. SEGMENT INFORMATION

The Company operates in one principal industry segment: the design, development, manufacturing and distribution of a variety of non-gambling casino-theme and non casino-theme games. Geographic financial information is as follows:

	Nine Months Ended July 31, 1996 ----- (unaudited)	Nine Months Ended July 31, 1995 ----- (unaudited)
Net sales:		
United States	\$18,192	\$36,124
PRC and Hong Kong	6,767	1,380
	-----	-----
	\$24,959	\$37,504
	=====	=====
Operating Loss:		
United States	\$(1,386)	\$(2,382)
PRC and Hong Kong	(328)	(238)
	-----	-----
	\$(1,714)	\$(2,620)
	=====	=====
Identifiable assets:		
United States	\$14,209	\$29,683
PRC and Hong Kong	26,026	45,437
	-----	-----
	\$40,235	\$75,120
	=====	=====

A significant portion of PRC and Hong Kong net sales in the nine months ended July 31, 1996 were export sales to the United States.

<PAGE>

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with the attached financial statements and notes thereto, and with the audited financial statements, accounting policies and notes included in the Company's Annual Report to Shareholders for the fiscal year ended October 31, 1995, and in the

Company's Annual Report on Form 20-F for such fiscal year as filed with the United States Securities and Exchange Commission.

RESULTS OF OPERATIONS -- QUARTER ENDED JULY 31, 1996
COMPARED TO THE QUARTER ENDED JULY 31, 1995

Net sales for the quarter ended July 31, 1996 of \$12.0 million decreased 5% from \$12.7 million for the same quarter in 1995. Unit sales increased 25% during the third quarter 1996 over the third quarter 1995 from 2 million units in 1995 to 2.5 million units in 1996. New products included four new Radica games, King Pin Bowling; Hearts; Gin Rummy and Bass Fishin', as well as one new Monte Carlo game, Solitaire and three new electronic original equipment manufacture ("O.E.M.") games for Milton Bradley, Hangman(TM); Connect Four(TM) and Battleship(TM). Sales of non casino-theme games accounted for 28% of net sales, sales of O.E.M. product accounted for 34% of net sales and sales of casino-theme games accounted for 38% of net sales. Of the casino-theme games, handheld games accounted for 87% of net sales, down from 89% in the third quarter of 1995. The third quarter decrease in net sales is due to the sale of promotional products at lower prices to reduce inventory levels offset by sales of new product lines.

Gross profit for the third quarter of 1996 was \$3.2 million as compared to \$3.3 million for the third quarter of 1995, a decrease of \$0.1 million. The gross margin for the third quarter of 1996 of 26.3% has increased from 25.8% for the same quarter in 1995. This increase is due primarily to sale of new higher margin product lines offset by sales of promotional products to reduce inventories of casino-theme games and lower margin O.E.M. sales.

Operating income from continuing operations for the third quarter of 1996 was \$0.5 million, up \$3.0 million from the operating loss of \$2.5 million in the same quarter in 1995. Operating expenses decreased to \$2.6 million from \$5.7 million in the third quarter of fiscal 1995. This decrease was primarily due to decreased commissions (as a result of lower sales and a new commission structure) and the benefits of the Company's cost cutting program. Commissions decreased 55% to \$239,000 from \$536,000 in the third quarter of 1995; indirect salaries and wages decreased 41% to \$1.0 million from \$1.7 million; advertising and promotion expenses decreased 32% to \$287,000 from \$419,000 and research and development expenses decreased 20% to \$477,000 from \$595,000.

After-tax income from continuing operations for the third quarter of 1996 was \$0.7 million, up from net loss of \$1.9 million in the third quarter of 1995. The earnings per common share before discontinued operations in the third quarter of 1996 was \$0.03 as compared to net loss per common share of \$0.08 for the third quarter of 1995.

Net loss for the third quarter of 1996 after discontinued operations was \$0.8 million, giving a net loss per share of \$0.04 for the quarter.

<PAGE>

CAPITAL RESOURCES AND LIQUIDITY

Cash and cash equivalents totaled \$5.0 million at July 31, 1996, down \$2.8 million from year-end 1995. Working capital at July 31, 1996 was \$14.3 million, a \$1.6 million decrease from working capital of \$15.9 million at October 31, 1995. The ratio of current assets to current liabilities increased to 2.13 at July 31, 1996 from 1.67 at October 31, 1995. The increase in the current ratio is due to repayment of short-term debt.

Inventories at July 31, 1996 totaled \$13.7 million compared to \$16.5 million at October 31, 1995. This decrease is due mainly to the inventory reduction program, offset by purchases of raw materials for the peak production season.

Short-term borrowings of \$5.3 million at July 31, 1996 were down from \$14.0 million at October 31, 1995. This decrease is due primarily to repayment of credit lines used for the purchase of raw materials for the manufacturing operation and repayment of overdraft facilities.

The Company believes that its existing cash and cash equivalents and cash generated from operations are sufficient to satisfy its current anticipated working capital needs.

<PAGE>

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings

See Note 15 of Notes to Financial Statements, included herein.

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

None.

(b) Reports on Form 8-K

None.

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<PAGE>

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RADICA GAMES LIMITED
(Registrant)

Date: September 10, 1996

By: /s/ David C.W. Howell

David C.W. Howell
Chief Financial Officer

<PAGE>

RADICA GAMES LIMITED

RADICA GAMES LIMITED
REPORTS PROFIT FOR
THE THIRD QUARTER ENDED JULY 31, 1996FOR IMMEDIATE RELEASE
September 9, 1996CONTACT: JON N. BENGTON
(RENO, NEVADA)
(702) 829 8643DAVID C.W. HOWELL
(HONG KONG)
(852) 2693 2238

(Hong Kong) Radica Games Limited (NASDAQ RADAF) reported today net sales of \$12.0 million, a 5% decline from \$12.7 million for the third quarter of 1995. After tax profit from continuing operations for the third quarter (before accounting for the discontinued Pub Poker operations) was \$0.7 million, up from net loss of \$1.9 million in the third quarter of 1995. Net loss for the third quarter of 1996 after discontinued operations was \$0.8 million. The earnings per common share from continuing operations was \$0.03 in the third quarter of 1996 compared to a net loss per common share of \$0.08 for the third quarter of 1995.

The third quarter decrease in net sales resulted primarily from lower promotional product pricing as part of the inventory reduction program offset by sales of new product lines.

Gross profit for the third quarter of fiscal 1996 decreased 3.3% to \$3.2 million from \$3.3 million for the third quarter of fiscal 1995. The gross margin for the third quarter was 26.3% compared to 25.8% for the same quarter last year and 4.7% in the second quarter of fiscal 1996.

The increase in gross margin was due to the sale of new non casino-theme product at higher margins offset by continued sales of promotional casino-theme product at low margins and lower margin O.E.M. production for the Hasbro Games Group.

Operating income for the third quarter of 1996 before accounting for cessation of Pub Poker business was \$0.5 million compared to an operating loss of \$2.5 million for the same quarter last year. Operating expenses decreased 54% to \$2.6 million in the third quarter of fiscal 1996 from \$5.7 million in the third quarter of fiscal 1995. The decrease was primarily due to reduced commissions (as a result of lower sales and the new commission structure) and the benefits of the Company's cost-cutting program. Commissions for the third quarter of fiscal 1996 decreased 55% to \$239,000 from \$536,000 in the third quarter of fiscal 1995; indirect salaries and wages decreased 41% to \$1.0 million from \$1.7 million; advertising and promotion expenses decreased 32% to \$287,000 from

\$419,000 and research and development expenses decreased 20% to \$477,000 from \$595,000.

<PAGE>

Comparison of Expenses
Q3 1995 to Q3 1996
(\$ millions)

(Set forth in bar chart)

	Q3 1995 -----	Q3 1996 -----
Sales Commissions	0.54	0.24
Salaries	1.70	1.00
Advertising Expenses	0.42	0.29
Research & Development	0.60	0.48

"As we approach Q4, traditionally our strongest quarter, we look forward to further successes generated by strong sell through of our new product lines. Our non casino-theme lines are expected to be expanded in 1997 from the current 11 models to more than 20," said Mr. Bob Davids, President and CEO

<PAGE>

"We are now starting to see the effects of sales of non casino-theme product combined with the results of our cost-cutting program. We are very pleased with the sales of Bass-Fishin', Golf and Solitaire and our O.E.M. relationship with the Hasbro Games Group continues to flourish with over two million games being produced for them during fiscal 1996. We expect to see an increase in O.E.M. business in 1997," said Davids.

"We are delighted that the Class Action lawsuit against the Company, which had been pending since July 1994, has been dismissed by the District Court. Although the dismissal is still subject to appeal or reconsideration, we are hopeful that we can put this matter behind us and focus fully on the future of Radica," said Davids in response to the granting of a motion for summary judgment in favor of the Company by United States District Court Judge David Alan Ezra.

Mr. Davids stated that during the third quarter, the Company had made the decision to close its Pub Poker operations due to the poor response from the market.

The foregoing discussion contains forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from projected results as a result of various factors including those set forth in the Company's Annual Report on Form 20-F for the fiscal year ended October 31, 1995, as filed with the Securities and Exchange Commission. In particular, see "Item 1. Description of Business -- Risk Factors" in such report on Form 20-F.

-- END --

<PAGE>

RADICA GAMES LIMITED
CONSOLIDATED BALANCE SHEETS

ASSETS

(US Dollars in thousands except share data)	JUL. 31, ----- 1996 ----- (unaudited) \$	OCT. 31, ----- 1995 ----- \$
CURRENT ASSETS:		
Cash and cash equivalents	5,004	7,757
Short-term investments	76	3,228
Accounts receivable, net of allowances for accounts of \$553 and \$1,572 in 1996 and 1995 and estimated customer returns of \$285 and \$1,790 in 1996 and 1995	7,637	10,242
Inventories, net of provision of \$11,472 in 1996 and \$11,873 in 1995	13,663	16,472
Prepaid expenses and other current assets	549	531
Income taxes receivable	--	1,306
	-----	-----
Total current assets	26,929	39,536
PROPERTY, PLANT AND EQUIPMENT, NET	13,277	14,468
DEFERRED INCOME TAXES	29	29
OTHER ASSETS	--	21
	-----	-----

Total assets	40,235	54,054
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:

Short-term borrowings	5,289	13,970
Current portion of long-term debt	235	371
Accounts payable	3,978	3,006
Accrued payroll and employee benefits	165	241
Accrued expenses	2,977	6,070
Income taxes payable/receivable	17	--

Total current liabilities	12,661	23,658
---------------------------	--------	--------

LONG-TERM DEBT	5	99
----------------	---	----

STOCKHOLDERS' EQUITY

Common stock		
par value \$0.01 each, 100,000,000 shares		
authorised, 20,680,000 shares outstanding		
(22,780,000 at 31st October 1995)	207	228
Additional paid-in capital	28,371	28,328
Retained (deficit)/earnings	(1,030)	1,720
Cumulative translation adjustment	21	21

Total stockholders' equity	27,569	30,297
----------------------------	--------	--------

Total liabilities and stockholders' equity	40,235	54,054
--	--------	--------

<PAGE>

RADICA GAMES LIMITED CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>

<CAPTION>

(US Dollars in thousands,
NINE MONTHS ENDED
except per share data)
JUL. 31,

THREE MONTHS ENDED

JUL. 31,

-----		1996	1995
1996	1995	-----	-----
(unaudited)	(unaudited)	(unaudited)	(unaudited)
REVENUES:		\$	\$
<S>		<C>	<C>
Net sales		11,989	12,662
24,959	37,504		
Cost of sales		(8,836)	(9,401)
(18,747)	(23,338)		
		-----	-----
Gross profit		3,153	3,261
6,212	14,166		
		-----	-----
OPERATING EXPENSES:			
Selling, general and administrative expenses		(2,135)	(5,123)
(6,646)	(15,070)		
Research and development		(477)	(595)
(1,280)	(1,716)		
		-----	-----
Total operating expenses		(2,612)	(5,718)
(7,926)	(16,786)		
		-----	-----
OPERATING INCOME/(LOSS) FROM CONTINUING OPERATIONS		541	(2,457)
(1,714)	(2,620)		
NET INTEREST INCOME/(EXPENSE)		23	(129)
(124)	(404)		
		-----	-----
INCOME/(LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND UNUSUAL ITEM		564	(2,586)
(1,838)	(3,024)		
UNUSUAL ITEM		--	--
709	--		

		-----	-----
INCOME/(LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES		564	(2,586)
(1,129) (3,024)			
INCOME TAXES		104	713
91 1,035			
		-----	-----
INCOME/(LOSS) FROM CONTINUING OPERATIONS AFTER INCOME TAXES		668	(1,873)
(1,038) (1,989)			
		-----	-----
DISCONTINUED OPERATIONS:			
LOSS FROM OPERATION OF PUB POKER BUSINESS		(38)	(34)
(256) (142)			
PROVISION FOR ESTIMATED LOSSES DURING PHASE-OUT PERIOD		(1,456)	--
(1,456) --			
		-----	-----
NET LOSS		(826)	(1,907)
(2,750) (2,131)			
=====		=====	=====
EARNINGS/(LOSS) PER SHARE FROM CONTINUING OPERATIONS		0.03	(0.08)
(0.05) (0.09)			
NET LOSS PER SHARE		(0.04)	(0.08)
(0.13) (0.09)			
AVERAGE NUMBER OF SHARES OUTSTANDING		20,680,00	22,780,00
21,691,67 22,780,00			
=====		=====	=====

</TABLE>

See accompanying notes to the consolidated financial statements.

<PAGE>

Sullivan & Cromwell
444 South Flower Street
Los Angeles, California 90071-2901
Telephone: (213) 955-8000
Facsimile: (213) 683-0457
(213) 955-4513

September 12, 1996

VIA EDGAR

Securities and Exchange Commission,
450 Fifth Street, N.W.,
Washington, D.C. 20549.

Re: Radica Games Limited Report on Form 6-K
(Registration No. 0-23696)

Ladies and Gentlemen:

On behalf of Radica Games Limited, a company incorporated in Bermuda (the "Company"), we attach for furnishing to the Securities and Exchange Commission the Company's report on Form 6-K (the "Form 6-K"),

Should you have any questions or comments relating to the Form 6-K, please do not hesitate to call the undersigned at (213) 955-8037 or, in my absence, Julius Christensen at (213) 955-8082.

Very truly yours,

/s/ Frank H. Golay, Jr.
Frank H. Golay, Jr.

(Attachments)

cc: Jon Bengtson
(Radica Games Limited)

FORM 6-K/A

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Issuer
Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

For the month of September, 1996

RADICA GAMES LIMITED
(Translation of registrant's name into English)

Suite R, 6/F., 2-12 Au Pui Wan Street, Fo Tan, Hong Kong
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or 40-F

Form 20-F X

Form 40-F -----

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes -----

No X

If "yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

Contents:

1. Quarterly Report (amended solely to correct the omission of certain captions on page 5).

This Report on Form 6-K/A shall be deemed to be incorporated by reference into the Registrant's Registration Statement on Form S-8 (no. 33-86960).

<PAGE>

QUARTERLY REPORT*

For the quarterly period ending July 31, 1996

Commission File Number 0-23696

RADICA GAMES LIMITED

(Exact name of registrant as specified in charter)

Bermuda
(Country of Incorporation)

N/A
(I.R.S. Employer Identification No.)

Suite R, 6/F., 2-12 Au Pui Wan Street, Fo Tan, Hong Kong
(Address of principal executive offices)

Registrant's telephone number, including area code: (852) 2693 2238

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No
--- ---

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class -----	Outstanding at September 9, 1996 -----
Common Stock, par value \$0.01 per share	20,680,000

* As a foreign private issuer, the registrant is not required to file reports on Form 10-Q. It intends to make voluntary quarterly reports to its stockholders which generally follow the Form 10-Q format. Such reports, of which this is one, are furnished to the Commission pursuant to Form 6-K.

<PAGE>

PART I -- FINANCIAL INFORMATION

Item 1. Financial Statements

RADICA GAMES LIMITED

FORM 6-K

The accompanying consolidated financial statements have been prepared by the Company, without audit, and reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the results for the interim periods. The statements have been prepared in accordance with the regulations of the Securities and Exchange Commission (the "SEC"), but omit certain information and footnote disclosures necessary to present the statements in accordance with accounting principles generally accepted in the United States of America.

These financial statements should be read in conjunction with the financial statements, accounting policies and notes included in the Form 20F for the year ended October 31, 1995 as filed with the Securities and Exchange Commission. Management believes that the disclosures are adequate to make the information presented herein not misleading.

<PAGE>

<TABLE>

<CAPTION>

RADICA GAMES LIMITED
CONSOLIDATED STATEMENTS OF OPERATIONS

(US Dollars in thousands,
NINE MONTHS ENDED
except per share data)
JUL. 31,

THREE MONTHS ENDED
JUL. 31,

		1996	1995
		(unaudited)	(unaudited)
		<C>	<C>
REVENUES:		\$	\$
Net sales		11,989	12,662
Cost of sales		(8,836)	
(9,401)	(18,747)	(23,338)	
Gross profit		3,153	3,261
6,212	14,166		
OPERATING EXPENSES:			
Selling, general and administrative expenses		(2,135)	
(5,123)	(6,646)	(15,070)	
Research and development		(477)	
(595)	(1,280)	(1,716)	
Total operating expenses		(2,612)	
(5,718)	(7,926)	(16,786)	
OPERATING INCOME/(LOSS) FROM CONTINUING OPERATIONS		541	
(2,457)	(1,714)	(2,620)	
NET INTEREST INCOME/(EXPENSE)		23	
(129)	(124)	(404)	

-----				-----	
INCOME/(LOSS) FROM CONTINUING					
OPERATIONS BEFORE INCOME TAXES				564	
AND UNUSUAL ITEM					
(2,586)	(1,838)	(3,024)			
UNUSUAL ITEM (Note 3)				-	
-	709	-			
-----				-----	
INCOME/(LOSS) FROM CONTINUING					
OPERATIONS BEFORE INCOME TAXES				564	
(2,586)	(1,129)	(3,024)			
INCOME TAXES (Note 7)				104	
	91	1,035			
-----				-----	
INCOME/(LOSS) FROM CONTINUING					
OPERATIONS AFTER INCOME TAXES				668	
(1,873)	(1,038)	(1,989)			
-----				-----	
DISCONTINUED OPERATIONS: (Note 8)					
LOSS FROM OPERATION OF PUB POKER					
BUSINESS				(38)	
(34)	(256)	(142)			
PROVISION FOR ESTIMATED LOSSES					
DURING PHASE-OUT PERIOD				(1,456)	
-	(1,456)	-			
-----				-----	
NET LOSS				(826)	
(1,907)	(2,750)	(2,131)			
=====				=====	
EARNINGS/(LOSS) PER SHARE FROM					
CONTINUING OPERATIONS				0.03	
(0.08)	(0.05)	(0.09)			
NET LOSS PER SHARE				(0.04)	
(0.08)	(0.13)	(0.09)			
AVERAGE NUMBER OF SHARES					
OUTSTANDING				20,680,000	
22,780,000	21,691,679	22,780,000			
=====				=====	

713

</TABLE>

See accompanying notes to the consolidated financial statements.

<PAGE>

<TABLE>
<CAPTION>

RADICA GAMES LIMITED
CONSOLIDATED BALANCE SHEETS

ASSETS		
(US Dollars in thousands except share data)		JUL. 31,
	OCT. 31,	

	1995	1996

-----	-----	(unaudited)
<S>		<C>
	<C>	

CURRENT ASSETS:	\$
-----------------	----

Cash and cash equivalents	
5,004	7,757
Short-term investments (Note 4)	
76	3,228
Accounts receivable, net of allowances for doubtful	
accounts of \$553 and \$1,572 in 1996 and 1995	
and estimated customer returns of \$285 and \$1,790 in	
1996 and 1995	
7,637	10,242
Inventories, net of provision of \$11,472 in 1996 and	
\$11,873 in 1995 (Note 5)	
13,663	16,472
Prepaid expenses and other current assets	
549	531
Income taxes receivable	
-	1,306

-----	-----
Total current assets	
26,929	39,536

PROPERTY, PLANT AND EQUIPMENT, NET
(Note 6)

13,277	14,468
DEFERRED INCOME TAXES (Note 7)	
29	29
OTHER ASSETS	
-	21

-----	-----
Total assets	
40,235	54,054

=====	=====
</TABLE>	
<TABLE>	
<CAPTION>	

LIABILITIES AND STOCKHOLDERS' EQUITY

<S>	<C>
<C>	

CURRENT LIABILITIES:

Short-term borrowings (Note 9)	
5,289	13,970
Current portion of long-term debt (Note 10)	
235	371
Accounts payable	
3,978	3,006
Accrued payroll and employee benefits	
165	241
Accrued expenses	
2,977	6,070
Income taxes payable/receivable	
17	-

-----	-----
Total current liabilities	
12,661	23,658

-----	-----
LONG-TERM DEBT (Note 10)	
5	99

STOCKHOLDERS' EQUITY

Common stock	
par value \$0.01 each, 100,000,000 shares	
authorized, 20,680,000 shares outstanding	
(22,780,000 at 31st October 1995)	
207	228

Additional paid-in capital	
28,371	28,328
Retained (deficit)/earnings	
(1,030)	1,720
Cumulative translation adjustment	
21	21

-----	-----
Total stockholders' equity	
27,569	30,297
Total liabilities and stockholders' equity	
40,235	54,054

=====	=====
-------	-------

</TABLE>

See accompanying notes to the consolidated financial statements.

<PAGE>

RADICA GAMES LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

(US Dollars in thousands)
NINE MONTHS ENDED

JUL. 31,

1995	

1996

-----	-----
(unaudited)	

(unaudited)

\$

\$

<S>

<C>

<C>

Cash flow from operating activities:

Net loss

(2,750)	(2,131)
---------	---------

Adjustments to reconcile net loss to net cash provided by operating activities:

Deferred income taxes

-	7
---	---

Depreciation and amortization

1,193	1,077
(Gain)/Loss on disposal of property, plant and	
(709)	74
equipment	
Write off of fixed assets	
563	-
Others	
-	366
Provision for compensation expense related to stock	
22	-
options	
Changes in assets and liabilities:	
Accounts receivable	
2,605	16,681
Inventories	
2,809	(1,764)
Prepaid expenses and other current assets	
(18)	840
Accounts payable	
972	(7,341)
Accrued payroll and employee benefits	
(76)	(100)
Accrued expenses	
(3,093)	(1,361)
Income taxes receivable/payable	
1,323	(3,421)

-----	-----
Total adjustments	
5,591	5,058

-----	-----
Net cash provided by operating activities	
2,841	2,927

-----	-----
-------	-------

Cash flow from investing activities:

Purchase of property, plant and equipment	
(764)	(5,453)
Decrease/(Increase) in other assets	
-	98
Proceeds from the sales of short-term investments	
3,152	(14)
Proceeds from sale of property, plant and equipment	
929	-

-----	-----
Net cash provided by/(used in) investing activities	
3,317	(5,369)

(continued)

Cash flow from financing activities:
(Decrease)/Increase in short-term borrowings
(8,681) 3,318
Repayment of long-term debt
(230) (150)
Funds from sale and leaseback arrangements
- 488
Repayment of note payable
- (3,000)

Net cash used in financing activities
(8,911) 656

Net decrease in cash and cash equivalents
(2,753) (1,786)

Cash and cash equivalents:
Beginning of period
7,757 11,038

End of period
5,004 9,252

=====

Supplementary disclosures of cash flow information:

Cash paid during the period for:

Interest
325 979
Income taxes
66 2,379

Cash received during the period for:

Income taxes
(1,480) -

</TABLE>

See accompanying notes to the consolidated financial statements.

<PAGE>

RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(US dollars in thousands)

1. BASIS OF CONSOLIDATION AND PREPARATION OF FINANCIAL STATEMENTS

The consolidated financial statements include the accounts of the Company and all subsidiaries. All significant intra-group transactions and balances have been eliminated on consolidation.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and are presented in U.S. dollars as the Company's sales are predominantly denominated in U.S. dollars.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents -- Cash and cash equivalents include cash on hand, cash accounts, interest-bearing savings accounts, and time certificates of deposit with a maturity at purchase date of three months or less.

Inventories -- Inventories are stated at the lower of cost, determined by the weighted average method, or market.

Depreciation and amortization of property, plant and equipment -- Depreciation is provided on the straight line method at rates based upon the estimated useful lives of the property, generally not more than seven years except for leasehold land and buildings which are 50 years, the term of the lease. Costs of leasehold improvements and leased assets are amortized over the life of the related asset or the term of the lease, whichever is shorter.

Mold costs -- The Company expenses all mold costs in the year of purchase or for internally produced molds, in the year of construction.

Revenue recognition -- Revenues are recognized as sales when merchandise is shipped. The Company permits the return of damaged or defective products and accepts limited amounts of product returns in certain other instances. Accordingly, the Company provides allowances for the estimated amounts of these returns at the time of revenue recognition, based on historical experience adjusted for known trends.

RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
(US dollars in thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Short-term investments -- During 1995, the Company adopted the provisions of Statement of Financial Accounting Standards No. 115 ("SFAS 115"), "Accounting for Certain Investments in Debt and Equity Securities". In accordance with SFAS 115, investment securities are classified as "trading", "held-to-maturity", or "available-for-sale". Debt and equity securities that will be held for resale in anticipation of short-term market movements are classified as trading securities and are stated at fair value, with unrealized holding gains and losses included in earnings. Debt securities are classified as held-to-maturity securities when the company has the positive intent and ability to hold the securities until their maturity. Held-to-maturity securities are stated at their amortized cost. Debt securities not classified as trading or held-to-maturity are classified as available-for-sale. Available-for-sale securities are stated at fair value, with unrealized gains and losses, net of tax, reported as a separate component of shareholders equity. Management determines the appropriate classification of securities at the time of purchase and re-evaluates such classification as of each balance sheet date.

Income taxes -- Certain items are treated differently for financial reporting purposes than for income tax purposes. Pursuant to the provision of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," deferred income taxes are provided, under the liability method, in recognition of these temporary differences, using the tax rates expected to be in effect when the related temporary differences reverse.

Foreign currency translation -- Assets and liabilities of foreign operations are translated using year-end exchange rates. Revenues and expenses of foreign operations are translated using average monthly exchange rates. The impact of exchange rate changes is shown as "Cumulative Translation Adjustment" in shareholders' equity. Net losses from foreign exchange transactions of \$100 in the quarter ended July 31, 1996 and \$77 in the quarter ended July 31, 1995 are included in selling, general and administrative expenses.

Post-retirement and post-employment benefits -- The Company does not provide post-retirement benefits to employees and post-employment benefits are immaterial.

Warranty -- Future warranty costs are provided for at the time of revenue recognition based on management's estimate by reference to historical experience adjusted for known trends.

3. UNUSUAL ITEM

During the second quarter of 1996, a gain of \$709 was made from the sale of a property in Hong Kong.

4. SHORT-TERM INVESTMENTS

At October 31, 1995, the Company had an investment in a money market fund of \$3,000 which was subsequently sold in December 1995.

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RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued) (US dollars in thousands)

5. INVENTORIES

Inventories by major categories are summarized as follows:

	July 31, ----- 1996 ---- (unaudited)	October 31, ----- 1995 ----
Raw materials	\$ 2,612	\$ 4,036
Work in progress	3,587	2,576
Finished goods	7,464	9,860
	----- \$ 13,663	----- \$ 16,472
	=====	=====

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	July 31, ----- 1996 ---- (unaudited)	October 31, ----- 1995 ----
Land and buildings	\$ 9,883	\$ 9,628
Plant and machinery	2,972	2,958
Furniture and equipment	2,898	2,849
Leasehold improvements	1,180	1,130
Pub Poker Units	-	476
Total	----- \$ 16,933	----- \$ 17,041

Less: Accumulated depreciation and amortization	(3,656)	(2,573)
	-----	-----
Total	\$ 13,277	\$ 14,468
	=====	=====

Additions, disposals and depreciation and amortization of property, plant and equipment for the periods shown are as follows:

	Nine Months Ended July 31, 1996 ---- (unaudited)	Year Ended October 31, 1995 ----
Additions	\$ 764	\$ 6,399
Disposals -- net book value	220	642
Write off of fixed assets	563	1,478
Depreciation and amortization	1,172	1,542

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RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued) (US dollars in thousands)

6. PROPERTY, PLANT AND EQUIPMENT (Continued)

Included in property, plant and equipment are assets acquired under capital leases with the following net book values:

	Nine Months Ended July 31, 1996 1995 ---- (unaudited)	Year Ended October 31, 1995 ----
At cost:		
Plant and machinery	\$ 968	\$ 968
Less: accumulated depreciation	(301)	(156)
	-----	-----
	\$ 667	\$ 812
	=====	=====

Amortization of capital lease assets, which is included in depreciation and amortization expenses in the accompanying statements of income, was \$145 for the period ended July 31, 1996 and \$136 for the year ended October 31, 1995.

7. INCOME TAXES

The components of loss from continuing operations before income taxes are as follows:

	Nine Months Ended July 31, 1996 ----	Nine Months Ended July 31, 1995 ----
	(unaudited)	(unaudited)
United States	\$ (1,418)	\$ (2,846)
Foreign subsidiaries operating in:		
People's Republic of China	374	(255)
Hong Kong	(85)	77
	-----	-----
	\$ (1,129)	\$ (3,024)
	=====	=====

In accordance with the Hong Kong Inland Revenue Departmental Interpretation and Practice Note No. 21, manufacturing operations carried out in the People's Republic of China ("PRC") by Hong Kong companies under a processing arrangement have been apportioned 50% of their income as not subject to Hong Kong income tax.

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RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued) (US dollars in thousands)

7. INCOME TAXES (Continued)

As the Company's PRC subsidiary is a sino-foreign joint venture enterprise, it is eligible for certain tax holidays and concessions. The PRC subsidiary incurred a loss during the 1995 period. In addition, under the existing processing arrangement and in accordance with the current tax regulations

in the PRC, manufacturing income generated in the PRC is not subject to PRC income taxes.

The credit/(provision) for income taxes consists of the following:

	Nine Months Ended July 31, 1996 ---- (unaudited)	Nine Months Ended July 31, 1995 ---- (unaudited)
Hong Kong		
Current	\$ 104	\$ (18)
Deferred	-	(7)
	-----	-----
	\$ 104	\$ (25)
	-----	-----
United States		
Federal income taxes	\$ (13)	\$ 998
State income taxes	-	62
Deferred	-	-
	-----	-----
	\$ (13)	\$ 1,060
	-----	-----
	\$ 91	\$ 1,035
	=====	=====

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RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued) (US dollars in thousands)

7. INCOME TAXES (Continued)

A reconciliation between the credit for income taxes computed by applying the statutory tax rates in the United States for 1996 and 1995 to loss before income taxes and the actual (provision)/credit for income taxes is as follows:

Nine Months Ended July 31, 1996 ---- (unaudited)	Nine Months Ended July 31, 1995 ---- (unaudited)
---	---

US Statutory Rate	34%	34%
Credit for income taxes at statutory rate on loss for the period	\$ 384	\$ 1,028
State income taxes	-	62
International rate differences	15	13
Accounting losses for which deferred income tax cannot be recognized	(326)	(87)
Other	18	19
	-----	-----
Income tax credit	\$ 91	\$ 1,035
	=====	=====

Deferred income taxes reflect the net tax effect of temporary differences between the amounts of assets and liabilities for income tax purposes compared with the respective amounts for financial statement purposes. At July 31, 1996 and October 31, 1995 deferred income taxes comprised:

	July 31, 1996 ----	October 31, 1995 ----
	(unaudited)	
Deferred tax assets (liabilities):		
Excess of tax over financial reporting depreciation	\$ (79)	\$ (79)
Tax losses	1,853	-
Bad debt allowance	203	517
Advertising allowances	-	123
Inventory obsolescence reserve	2,930	4,066
Other	851	955
	-----	-----
	\$ 5,758	\$ 5,582
Valuation allowance	(5,729)	(5,553)
	-----	-----
	\$ 29	\$ 29
	=====	=====

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RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
(US dollars in thousands)

8. DISCONTINUED OPERATIONS

On July 31, 1996 the Company adopted a plan to discontinue its Pub Poker operations. All products and raw materials relating to Pub Poker will be disposed of by October 31, 1996 either by means of sale at discounted prices or by scrapping. The loss from Pub Poker operations has been accounted for as discontinued operations and the prior year financial statement has been restated to reflect the discontinued operations. As at July 31, 1996 the following assets which have been provided for and form a part of the loss from cessation of business are the only remaining current and fixed assets:

Raw materials	\$	1,040
Finished Goods		379
"Pub Runner" computer software		7
Other		30

	\$	1,456
		=====

In 1995 and 1994, the Pub Poker business produced operating losses of \$233 and \$20 respectively. Revenues from Pub Poker for the nine months ended July 31, 1996 and the years ended October 31, 1995 and October 31, 1994 were \$14, \$0 and \$0 respectively.

9. SHORT-TERM BORROWINGS

These include borrowings in the form of trade acceptances, and overdrafts with various banks.

	July 31, 1996 ---- (unaudited)	October 31, 1995 ----
Credit facilities available at end of period	\$ 7,633	\$ 22,394
Utilized at end of period	\$ 5,288	\$ 13,970
Weighted average interest rate on borrowings at end of period	7.97%	8.74%

Interest rates are generally based on the banks' prime rate.

10. LONG-TERM DEBT

July 31,	October 31,
----------	-------------

	1996 ---- (unaudited)	1995 ----
Long-term debt consists of:		
Capital lease obligations (interest at 13.35% to 13.80%)	\$ 240	\$ 470
Current portion of long-term debt	(235)	(371)
	-----	-----
Long-term debt, less current portion	\$ 5	\$ 99
	=====	=====

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RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued) (US dollars in thousands)

11. STOCK OPTIONS

The Company's 1994 Stock Option Plan (the "Stock Option Plan") provides for options to be granted for the purchase of an aggregate of 1,600,000 shares of common stock at per share prices not less than 100% of the fair market value at the date of grant as determined by the Compensation Committee of the Board of Directors. Options under this plan are generally exercisable ratably over five years from the date of grant unless otherwise provided.

In January 1996, due to the reduced market price of Radica Games common stock, the Company offered active employees holding outstanding options the opportunity to exchange them for stock options at an exercisable price equal to the fair market value at that time. As a result of the offer, holders of 916,000 options at an exercise price of \$ 8.50 returned their options for cancellation and 916,000 options at an exercise price of \$ 1.375 were granted in exchange. In the third quarter of 1996, 4,000 options and 1,000 options at an exercise price of \$1.375 were canceled and vested respectively.

At July 31, 1996, 991,000 options granted under the Stock Option Plan, exercisable at a price of \$1.375, 15,000 options, exercisable at a price of \$1.50, 34,000 options, exercisable at a price of \$ 8.50, 15,000 options, exercisable at a price of \$3.66, 90,000 options, exercisable at a price of \$11.00 and 75,200 options, exercisable at a price of \$0.567 granted under an employment agreement, are outstanding.

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RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
(US dollars in thousands)

12. OFF-BALANCE SHEET RISK AND CONCENTRATIONS OF CREDIT RISK AND
MAJOR CUSTOMERS

Accounts receivable of the Company are subject to a concentration of credit risk with customers in the retail sector. This risk is limited due to the large number of customers composing the Company's customer base and their geographic dispersion, though the Company has two customers which accounted for more than twenty and twenty-three percent of net sales in the nine months ended July 31, 1996 and had three customers which accounted for more than nineteen, thirteen and eleven percent of net sales in fiscal 1995. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers.

13. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of the Statement of Financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments." The estimated fair value amounts have been determined by the Company, using available market information and appropriate valuation methodologies. The estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

The carrying amounts of cash and short-term investments, accounts receivable, accounts payable and a note payable are reasonable estimates of their fair value.

At July 31, 1996, the Company has letters of credit outstanding totaling \$775 which guarantee various trade activities. The contract amount of the letters of credit is a reasonable estimate of the fair value since the value for each is fixed over the life of the commitment.

14. RETIREMENT PLAN

The Company has defined contribution retirement plans covering substantially all employees in Hong Kong. Under these plans, eligible employees may contribute amounts through payroll deductions which are not more than 5% of individual salary, supplemented by employer contributions ranging from 5% to 10% of individual salary depending on the years of service. The expenses related to these plans were \$39 and \$83 for the nine

months ended July 31, 1996 and fiscal 1995 respectively.

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RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued) (US dollars in thousands)

15. LITIGATION

Ten purported class actions filed in various United States District Courts against the Company, various of its officers and directors, and the managing underwriters of the Company's initial public offering have been consolidated in the United States District Court for the District of Nevada under the caption In re Radica Games Limited Securities Litigation, Master File No. CV-S-94-00653-DAE (LRL). Plaintiffs filed a consolidated complaint on November 4, 1994 that superseded all the complaints in the individual actions.

The named plaintiffs originally sought to represent a class consisting of purchasers of the Company's common stock in the initial public offering or in the open market from May 13 through July 22, 1994 and sought unquantified monetary damages and other relief against the defendants for alleged violations of Sections 11, 12(2), and 15 of the Securities Act of 1933, Sections 10b (and Rule 10b-5 thereunder), 20(a), and 20A(a) of the Securities Exchange Act of 1934, Sections 90.570, 90.660 and 90.660.4 of the Nevada Revised Statutes, and the common law of Nevada relating to the Company's registration statement and other public disclosures. As a consequence of an Order of the Court granting in part defendants' motion to dismiss the complaint and a stipulation of the parties, all of plaintiff's claims other than those arising under the Securities Act of 1993, and limited to certain specified statements in the Company's registration statement, were dismissed without prejudice. Pursuant to a stipulation of the parties, the Court provisionally agreed to treat the remaining claims as class claims.

After the close of discovery, plaintiffs moved for leave to amend their complaint to add allegations with respect to an additional claimed omission in the registration statement. Shortly thereafter, the Company moved for summary judgment seeking dismissal of the complaint. Following a hearing on July 31, 1996, the Court entered an Order (i) denying plaintiffs' motion to amend the complaint and (ii) granting the Company's (and the other defendants') motion for summary judgment, and on August 9, 1996 the Court entered final judgment dismissing the action. Plaintiffs have moved for

reconsideration of the grant of summary judgment against them. They also have a right of appeal to the United States Court of Appeals for the Ninth Circuit.

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RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued) (US dollars in thousands)

16. SEGMENT INFORMATION

The Company operates in one principal industry segment: the design, development, manufacturing and distribution of a variety of non-gambling casino-theme and non casino- theme games. Geographic financial information is as follows:

	Nine Months Ended July 31, 1996 ---- (unaudited)	Nine Months Ended July 31, 1995 ---- (unaudited)
Net sales:		
United States	\$ 18,192	\$ 36,124
PRC and Hong Kong	6,767	1,380
	----- \$ 24,959 =====	----- \$ 37,504 =====
Operating Loss:		
United States	\$ (1,386)	\$ (2,382)
PRC and Hong Kong	(328)	(238)
	----- \$ (1,714) =====	----- \$ (2,620) =====
Identifiable assets:		
United States	\$ 14,209	\$ 29,683
PRC and Hong Kong	26,026	45,437
	----- \$ 40,235 =====	----- \$ 75,120 =====

A significant portion of PRC and Hong Kong net sales in the nine months ended July 31, 1996 were export sales to the United States.

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Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

RADICA GAMES LIMITED

(Registrant)

Date: September 30, 1996

By: /s/ David C.W. Howell

David C.W. Howell

Chief Financial Officer

RADICA GAMES LTD

R 024106

20-F

SIC 5090

NMS

SEC # 0-23696

FOR 10/31/94

CARD 001

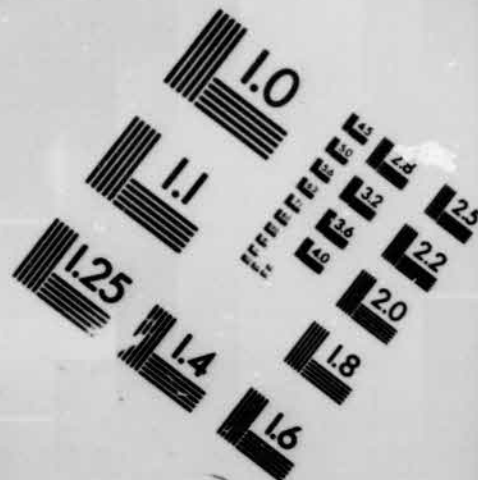
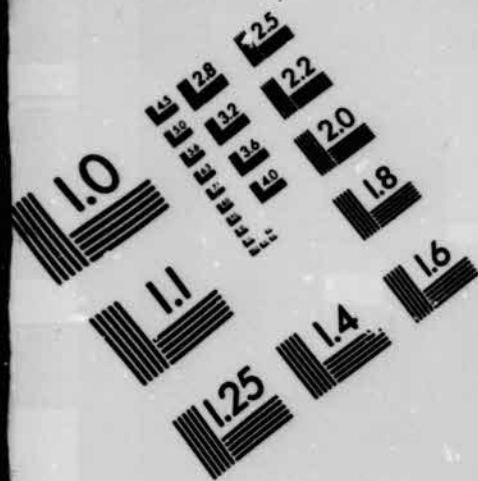
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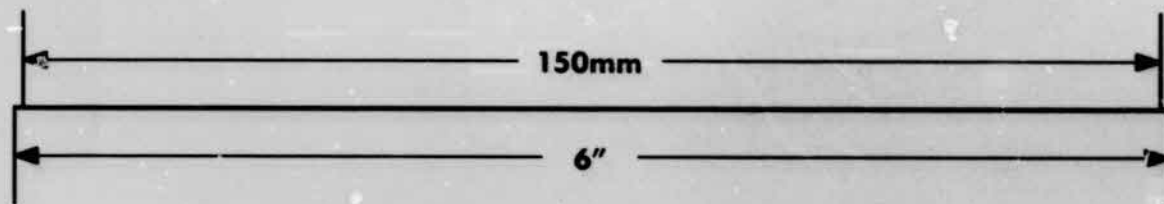
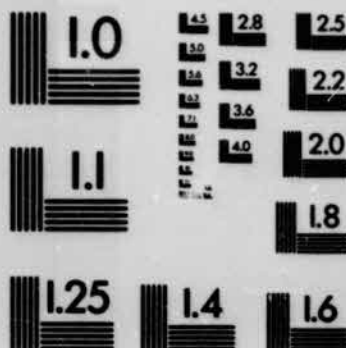
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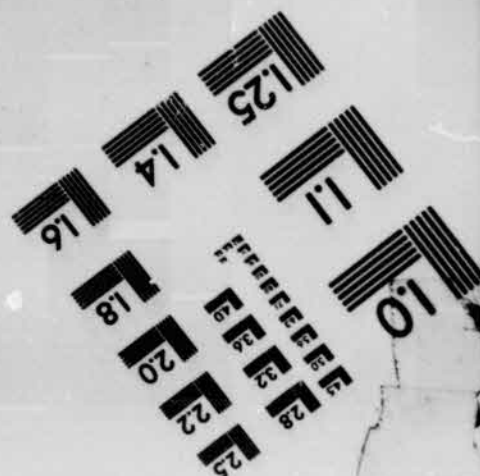
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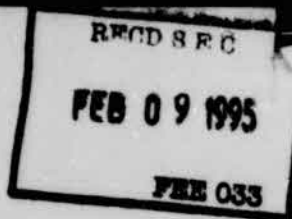


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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549



FORM 20-F

- ☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or (g) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]
- OR
- ☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the Fiscal Year Ended October 31, 1994.

OR

- ☐ TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the Transition period from _____ to _____
Commission File Number _____

RADICA GAMES LIMITED

(Exact name of registrant as specified in its charter)

Bermuda

(Jurisdiction of incorporation or organization)

**Suite R, 6/FI. 2-12 Au Pui Wan St.
Fo Tan, Hong Kong**

(Address of principal executive offices)

PROCESSED BY
114-66-DS
FEB 10 1995

DISCLOSURE INC.

Securities Registered Pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, Par Value \$.01	NASDAQ

Securities registered pursuant to section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

<u>Title of each class</u>	<u>Amount Outstanding</u>
Common Stock, Par Value \$.01	22,780,000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No _____

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 _____ Item 18 ☒

ps. 1 of 1
Exhibit Index at p.

PART 1

ITEM 1. DESCRIPTION OF BUSINESS

Radica Games Limited ("the Company") designs, develops, manufactures and distributes a variety of non-gambling casino theme games.

The Company believes that it is the dominant seller of casino theme games in the United States. The Company's principal products currently include handheld and tabletop electronic poker, blackjack, slot and keno games and tabletop mechanical slot machine banks, all of which have been designed to simulate the play of the commercial gaming machines found in casinos. The Company's products are based on familiar games that have been played for generations and are designed to be played with little or no instruction. The Company currently offers over 50 models with retail prices ranging from \$9.95 to \$99.95. In early 1994, the Company entered into an original Products Manufacturing Agreement ("Manufacturing Agreement") with International Game Technology ("IGT"), the world's largest manufacturer of computerized casino gaming machines and systems, to manufacture certain commercial gaming machines for IGT commencing in 1995. In connection with this agreement, IGT acquired 9.2% of the Company's Common Stock (after giving effect to the Company's initial public offering). The Company is currently developing a commercial computerized poker tournament game (Pub Poker™) which it intends to lease to pubs, bars and commercial entertainment establishments.

Background

The Company completed an Initial Public Offering (IPO) in May, 1994. Prior to the IPO, the principal shareholders of the Company conducted the Company's business through two separate, jointly owned companies (Radica Limited, which manufactured the Company's products, and Radica USA, which distributed and currently distributes products in the United States) and through a third company, Disc, that was solely owned by Robert E. Davids, President of the Company, which provided certain design and engineering services to Radica Limited ("Radica HK"), and now provides similar services to Radica China Ltd.

Radica HK was established in Hong Kong in December 1985 by James J. Sutter and John N. Hansen and originally sold two models of souvenir slot machine banks. In 1988, Robert E. Davids joined the Company as General Manager and led the Company's development of one of the first souvenir electronic tabletop poker games. In 1989, Mr. Davids became an equal shareholder in the Company with Mr. Sutter and Mr. Hansen. In 1991, the Company introduced one of the first handheld electronic poker games.

Radica initially had its products assembled in Hong Kong by subcontractors and sold through distributors in the United States. Between 1988 and 1990, the Company brought certain of its production activities in house. At the beginning of 1992, the Company opened a factory in Tai Ping, China, moving its production activities from Hong Kong to southern China. The Company has continued to use subcontractors for a significant portion of its assembly operations, especially

during peak periods. In April 1992, Mr. Sutter, Mr. Hansen and Mr. Davids established Radica USA to take greater control of the distribution of the Company's products in the United States. The Company made over 85% of its sales through Radica USA in fiscal 1994.

In December 1993, Radica Games Limited was established as a holding company of Radica HK. Prior to the closing of the IPO, Radica Games Limited acquired all of the outstanding common stock of Radica USA from Mr. Davids, Mr. Sutter and Mr. Hansen in exchange for additional shares of the Company's Common Stock and acquired all of the outstanding common stock of Disc from Mr. Davids.

Business Strategy

In order to provide innovative, high quality games at low prices, Radica employs a strategy of product design in the United States, where over 90% of the Company's products are sold, combined with engineering and low cost materials procurement in Asia and low cost manufacturing in China, where the Company operates its Tai Ping Factory. The Company's product line by the end of fiscal 1994 included over 50 models of non-gambling casino theme games. New models planned for introduction include a line of poker and blackjack training games, a line of multiple game products including the "Poker Pak" and a new line of tabletop savings banks, including a combination poker game and telephone. The expanded product line is intended (i) to make the Company's products more attractive to retailers and distributors, who often prefer larger product lines, (ii) to achieve increased shelf and catalog space and (iii) to increase sales outside traditional gift seasons. The Company's current products and planned products are intended to reach retail price points covering the range of large volume gift products. The Company focuses primarily on products that combine its knowledge of the casino gaming industry with its experience in new product introduction, electronic game design and low cost manufacturing. The Company believes that the growing popularity of casino and other gaming in the United States and other parts of the world has contributed to its recent growth.

Radica believes its ability to develop and introduce innovative products is enhanced by the experience of several of its employees in the casino gaming industry, its multiple channel distribution capabilities, which allow for close customer contact, and its established product design and engineering in the United States. Large manufacturing volumes and low cost production activities in China have allowed the Company to keep its prices competitive. In addition, electronic parts and subassemblies can be purchased efficiently and at low cost in Asia. The Company is currently manufacturing certain of its tabletop products in Mexico to diversify its manufacturing capabilities in other low cost locations. By focusing primarily on assembly activities and using subcontractors during peak periods, the Company believes it has also reduced costs and increased manufacturing flexibility.

Radica's growth strategy is to build on its existing strengths and product successes. First, the Company intends to utilize its existing United States distribution strengths to sell new casino theme and other games it may develop as well as games or gifts of other producers that are targeted at the Company's customer base. Second, the Company intends to expand distribution of its

existing products, both domestically and outside the United States. Finally, the Company intends to pursue related business opportunities that leverage off the Company's product development expertise and the popularity of commercial gaming to access new markets. Related business opportunities initially being explored by the Company include commercial electronic non-gambling casino theme games which could be sold or leased to pubs, bars or commercial entertainment establishments. In addition, the Company intends to develop and expand original manufacturing of commercial gaming machines for IGT pursuant to the Manufacturing Agreement and to develop proprietary products related to its and IGT's existing products for commercial gaming applications. Pursuant to the Manufacturing Agreement, IGT will have certain rights to acquire and market any such commercial gaming products.

Products

Radica's principal products currently include over 50 models of handheld and tabletop electronic poker, blackjack, slot and keno games and tabletop mechanical slot machine banks, all of which have been designed to simulate the play of the commercial gaming machines found in casinos. In fiscal 1994, handheld games accounted for over 80% of the Company's net sales, and its two most popular models accounted for approximately 27% of net sales. Although sales of the Company's tabletop models have continued to grow, such growth has been inconsistent and slower than that of its handheld games. In fiscal 1994, the Company's products had retail prices ranging from \$9.95 to \$99.95.

The following table sets forth a breakdown of the Company's sales by major product category for the last three fiscal years.

Units	Year Ended October							
	1991				1992			
	Net Sales	% of Net Sales	Units Sold	No. of Models	Net Sales	% of Net Sales	Units Sold	No. of Models
Handheld	\$1,478,039	28.7%	122,607	1	\$6,621,211	67.2%	658,551	5
Tabletop	3,648,646	70.8%	390,312	8	3,228,825	32.8%	332,642	7
Others	<u>27,314</u>	<u>0.5%</u>	<u>8,108</u>	<u>4</u>	<u>2,956</u>	<u>0.0%</u>	<u>861</u>	<u>1</u>
Total	<u>\$5,153,999</u>	<u>100%</u>	<u>521,027</u>	<u>13</u>	<u>\$9,852,992</u>	<u>100%</u>	<u>992,054</u>	<u>13</u>

Year Ended October								
Units	1993				1994			
	Net Sales	% of Net Sales	Units Sold	No. of Models	Net Sales	% of Net Sales	Units Sold	No. of Models
Handheld	\$28,071,718	86.4%	3,485,050	8	\$58,195,409	80.7%	7,674,960	32
Tabletop	4,293,497	13.2%	549,915	13	13,889,243	19.3%	1,563,041	24
Others	<u>139,746</u>	<u>0.4%</u>	<u>16,687</u>	<u>1</u>	<u>7,486</u>	<u>0.0%</u>	<u>7,901</u>	<u>1</u>
Total	<u>\$32,504,961</u>	<u>100%</u>	<u>4,051,652</u>	<u>22</u>	<u>\$72,092,138</u>	<u>100%</u>	<u>9,245,902</u>	<u>68</u>

The Company's current games are designed to simulate the commercial gaming machines found in casinos but without any monetary risk or reward. The electronic games allow players to bet points with automatic scorekeeping. The games have the same basic rules and award points at approximately the same odds as commercial casino machines. Players can therefore play for entertainment and/or practice for playing on commercial casino machines. In addition, the Company offers models that allow two players to compete against each other. The Company's games also offer a variety of different features intended to further simulate casino playing, such as variable betting, music melody on winners, a jackpot bell (slot games), a flashing win light and reel spin sound (slot games). The sound of games can be turned off to permit silent play.

The Company's tabletop models are designed to be attractive souvenirs and gifts. The tabletop models have a coin slot and jackpot bell like commercial casino machines and can be used as savings banks. The electronic tabletop models have features similar to those of the Company's handheld games. Certain of the tabletop mechanical models have a simulated pewter finish to give them an antique appearance.

The Company's electronic games incorporate a semiconductor microcontroller chip into which the Company's proprietary game software has been masked. The electronic games use LCDs for their display and are battery powered.

The Company currently offers five basic games: draw poker, blackjack, slot, keno and newly introduced Wild Deuces™, in various models with different features.

Draw Poker is a five card draw poker game using a simulated 52 card deck shuffled 80 times between hands on most models. Points are awarded for winning hands and certain models have variable betting.

Blackjack uses a simulated 52 card deck with shuffle indicator for card counters on most models. Double down, split hand, insurance, surrender and bonus points for 7-7-7-, 6-7-8 and 6 card 21 are available on certain models. Certain models also have variable betting and total card count.

Slot machine games are available in electronic and mechanical models with betting on 1 to 5 lines depending on the model. Certain electronic models have variable betting, a flashing red light and a nudge mode that allows the player to nudge the third reel three times within two seconds to increase the chance of winning. Mechanical models have a mechanical arm and offer reel spin action.

Keno uses a 40 or 80 spot board with betting on 1 to 5 or 1 to 10 spots depending on the model.

Wild Deuces™, which was introduced in the first quarter of fiscal 1994, is a five card draw poker game similar to the Company's draw poker game except that deuces are wild.

The Company sells its products under Radica trade names, including Pocket Poker™, Pocket Blackjack-21™, Pocket Keno, Pocket Slot, Mini-Slot, Two-Player Draw Poker, Two-Player Blackjack-21, Wild Deuces™, Video Poker, Video Blackjack, Video Slot and Video Keno.

New Product Introduction

In fiscal 1995, Radica intends to introduce a new casino game, new models of existing games, a model of the traditional game of solitaire and a game designed to call Bingo numbers, including models that will combine two or more games. The Company believes that its strategy of offering various game models with differing features enables it to market its games to a wide range of consumers with different tastes and financial means.

The Company introduced a new game, Wild Deuces™ poker, in the first quarter of fiscal 1994 and introduced a combined draw poker and Wild Deuces™ game in the third quarter of fiscal 1994. These new products were initially to be applied to mid-range price points of the electronic handheld models.

The Company also introduced a range of product modifications and extensions in fiscal 1994. For the low-end market, the Company introduced improved versions of its low-end mechanical slot machine banks, a line of key chain games, and a line of 8" tabletop games with a flashing win light to enhance play. In the mid-range market, Radica introduced enhanced 8" tabletop games, upgraded handheld games with additional design features such as larger LCD displays and fold open lids, and improved versions of its two-player electronic tabletop games. At the high-end market, the Company introduced deluxe versions of its 8" tabletop casino games, executive handheld games with streamlined design and enhanced packaging, and a 13" electronic tabletop model with three different poker games.

The Company anticipates that new product introductions in fiscal 1995 will be concentrated in the third and fourth quarters of that year. By the end of fiscal 1995, the Company expects to have over 80 models. However, it is possible that the Company will determine not to proceed with any given product or that one or more aspects necessary for introduction of the products in fiscal 1995 will be delayed, which could delay or prevent certain anticipated product introductions.

Manufacturing and Materials

Radica currently manufactures its products at its Tai Ping Factory in southern China approximately 40 miles northwest of Hong Kong. The Company also uses subcontractors in China to assemble its products, especially during peak production periods. A New Factory, as described more fully below, is being constructed in cooperation with the local government, and is intended to replace the Tai Ping Factory following commencement of its operations scheduled for 1995. The New Factory will be within one mile of the Tai Ping Factory.

Manufacturing

Radica's manufacturing is generally limited to plastic injection and assembly operations. The Company orders customized components and parts from suppliers and uses subcontractors for more complicated operations such as masking of the Company's proprietary software onto the semiconductor chips used in its games and tooling of the molds for its plastic parts.

The Company assembles a substantial portion of its own products in order to control its production and delivery schedules. The Company uses subcontractors to provide it with flexibility to increase production during peak production periods. In fiscal 1994, the Company used subcontractors to assemble approximately 62% of its product volume in terms of units. The Company uses many subcontractors in China and is not dependent on any one subcontractor.

The Company's products are not required to obtain any quality approvals prior to sales in the United States. The Company, however, is required to have and has obtained CE approval, Europe's toy safety standard, for its products sold in Europe. The Company has been granted a Chinese toy quality license from the Chinese Import and Export Commodity Inspection Bureau, which is required of toy and game manufacturers in China to export toys or games.

Manufacturing Facilities

The Tai Ping Factory was constructed in 1991 and has approximately 60,000 sq. ft. of factory space and a production capacity of approximately 20,000 units per day. As is common in southern China, the factory also has dormitory facilities which can accommodate up to 1,000 factory workers. The Company ships its products by truck to Hong Kong and then by sea and air transport from Hong Kong.

The Company does not own the Tai Ping Factory. It operates the Tai Ping Factory under the Processing Agreement with the local government. The Processing Agreement provides by its terms that the local government will provide manufacturing facilities and supply workers to the Company and that the Company will pay a management fee and processing fee, factory rental and certain other charges. The management fee is paid to the local government and is based on a negotiated sum per worker at the factory. The processing fee is based on the value of raw materials shipped into the factory and the value of products shipped from the factory and is established in semi-annual production

agreements agreed upon with local government officials. The Company pays the processing fees through the Bank of China in Hong Kong and the funds are then placed in an operating account including other Company funds in China, all of which are used to pay the costs of the Tai Ping Factory. In practice, the Company operates all aspects of the Tai Ping Factory, including hiring, paying and terminating workers. Most of the Company's factory workers are hourly employees and are provided room and board in addition to their wages. In addition, the Company bears all other costs of operating the factory, including factory rental, utility and certain employee social welfare charges established by the local government. Many aspects of the Processing Agreement and operation of the Tai Ping Factory are dependent on the Company's relationship with the local government and existing trade practices in addition to the terms of the Processing Agreement. The Company believes that its relationship with the local government is excellent.

The New Factory is being constructed with the cooperation of the local government according to the Company's design specifications on a 3.7 acre site. The New Factory is scheduled to be constructed in two phases with the first phase to begin operating in early 1995, and the second phase to be completed in 1996. The first phase of the factory will have approximately 240,000 sq. ft. of factory space and have dormitory facilities for up to 2,600 workers as well as apartments for managers and visitors. The second phase of the factory is planned to have approximately 210,000 sq. ft. of additional factory space and have dormitory facilities for up to an additional 2,500 workers. The Company estimates that the cost of the rights to use the site and construction of the first phase will be approximately \$6.0 million, exclusive of manufacturing equipment. The unit capacity of the New Factory will depend on the product mix produced and particularly on the volume of IGT commercial gaming machines, which are substantially larger than the Company's casino theme games. The Company believes that when both phases are completed the New Factory will have an approximate capacity of 80 to 100 IGT commercial gaming machines per day, plus 40,000 to 50,000 casino theme games per day. However, there can be no assurance that the Company will be able to operate at full capacity or have sufficient sales to warrant doing so. Upon completion of the first phase, the Company intends to discontinue its use of the original Tai Ping Factory and move its operations to the New Factory. Because the New Factory will be within one mile of the existing Tai Ping Factory, the Company does not anticipate that the move will result in a major disruption of its operations. In order to provide additional capacity until the first phase is completed, the Company has leased for a period of two years an interim factory near the existing Tai Ping Factory having approximately 86,000 sq. ft. of factory space, dormitory facilities for up to 850 workers, and production capacity of approximately 20,000 units per day.

In June, 1994 the Company entered into a joint venture agreement with the local government to operate the New Factory. The Company is required to fund the construction costs of the New Factory. The Company expects such amounts will be applied as a 30 year prepaid leasehold on the factory. Upon commencement of production, the local government receives a fixed annual fee as the joint venture partner. The annual fee is subject to increases each three year period.

In 1994 the company established a small manufacturing facility in Mexico, in part to have a manufacturing facility closer to its major market, the United States, and in part to diversify its manufacturing capabilities. The Mexico plant resides in a 20,000 square foot leased factory facility in Juarez, Mexico, adjacent to El Paso, Texas. The company is currently manufacturing certain of its mechanical tabletop models in Mexico for the Company's worldwide distribution as well as certain

handheld models for distribution into the Mexico market. The company expects to manufacture most of its tabletop models in the Mexico facility by the end of 1995.

Materials

Major components used in the Company's products are liquid crystal displays ("LCDs"), Semiconductor chips, printed circuit boards ("PCBs") and molded plastic parts. The Company purchases LCDs, PCBs, and semiconductor chips from several suppliers, although specific LCDs, PCBs or semiconductor chips for any particular model are generally purchased from a single supplier. The Company generally provides six to nine months order indications to its semiconductor chip suppliers and must place firm orders three months in advance of delivery. The company tries to maintain only two months supply of semiconductor chips, which may constrain increased production of its products on short notice. The Company has not experienced interruption in firm orders of materials in the last three years. The Company generally has two suppliers provide molds for its major plastic parts in order to provide back-up molds. The Company pays for most of its materials in U.S. dollars.

The Company's major suppliers in fiscal 1994 included Epson Hong Kong (LCDs, semiconductor chips), United Radiant Technology Corp. (LCDs), Picvue Electronics Ltd. (LCDs), Oki Electric Industry Co. Ltd. (semiconductor chips) and Onpress Printed Circuit Boards (PCBs).

Sales and Distribution

Radica's products are sold in over 45 countries, with the United States accounting for over 90% of net sales in fiscal 1994.

The Company sells its products directly to over 200 retailers in the United States and to over 40 distributors world-wide. In fiscal 1994, approximately 86.7% of net sales were directly to retailers. The Company participates in the electronic data interchange ("EDI") program maintained by several major customers including J.C. Penney's, Sears, Target and Wal-Mart. In fiscal 1994, the largest customer of the Company, Target, accounted for 14.1% of net sales.

The following table sets forth certain of the Company's major customers in 1994, including distributors (alphabetical order).

<u>Department Stores</u>	<u>Drug Stores</u>	<u>International Distributors</u>	<u>Mass Merchandisers</u>
Dayton Hudson	Long's Drugs	Darmon (France)	Caldor
Dillards	Osco Drug	Gakken (Japan)	Spencer Gifts
Foley's	Thrifty Drug	Gibson Games (U.K)	K-Mart
J.C. Penney's	Walgreens	Haka (Holland)	Target
Kohl's		Neat Things (Canada)	Venture
Macy's			Wal-Mart
Marshall Fields			
Robinson's-May			
Sears			
<u>Catalog Showrooms</u>	<u>Mail Order Retailers</u>	<u>Specialty Gift Shop Operators</u>	<u>Consumer Electronics Stores</u>
Best Products	Fingerhut	Host Marriott	Radio Shack
Service Merchandise	Spiegel		

Over the last five years, the Company has expanded its distribution channels from Las Vegas souvenir and other specialty shops to general retailers, and from Christmas and other gift season display to year round display. The Company has increased its own distribution of its products through Radica USA which has increased control over the marketing of its products and has resulted in additional revenue due to more favorable margins for sales directly to retailers. In fiscal 1995, the Company expects to take control of its marketing in Canada and the United Kingdom by establishing distribution operations in those countries. Radica's distribution operations use regional sales managers working for the Company to manage manufacturers representatives and brokers that sell its products. These manufacturers representatives are not employees of the Company and work on a commission basis. In 1994, the Company opened a sales office in Las Vegas, Nevada to provide direct and in-store service to retailers, including gift and souvenir stores, in Nevada.

The Company is increasing its sales and marketing efforts in 1995. The Company is pursuing the distribution of its products in the convenience and grocery store channels. In addition to promoting its products at gift, electronic goods and other trade shows, the Company is working directly with retailers on catalog layouts and store displays. In 1995 the Company will be offering large "profit center" displays designed to carry the full Radica product line to all major retailers. A "profit center" is a three foot square, four-sided display, approximately five feet tall, that carries a full line of Radica products and display games that can be played at the display.

The Company's customers normally provide indications of interest, which may be cancelled at any time, from three to six months prior to scheduled delivery, but only confirm orders eight weeks in advance of delivery. Accordingly the Company generally operates without a significant backlog of orders. The Company's backlog orders as of the end of fiscal 1994 were not material.

The Company does not sell any of its products on consignment (except to a limited extent in Hong Kong) and accepts returns only for defective merchandise. Returns to date have been insignificant. In certain instances, where retailers are unable to sell the quantity of products which have been ordered from the Company, the Company may, in accordance with industry practice, assist retailers to enable them to sell such excess inventory by offering discounts, accepting returns and other concessions. Concessions to retailers have to date been insignificant. A portion of firm orders, by their terms, may be cancelled if shipment is not made by a certain date.

The Company's products generally carry a one year consumer warranty from the date of sale, and the Company generally honors warranty claims even after the one year period. In each of the last two years, warranty costs incurred have been less than 0.9% of net sales.

Product Development

Radica's engineering and development department has approximately 31 staff worldwide. The Company's product development starts with teams in Reno, Nevada and Dallas, Texas and continues through to the engineering teams in Hong Kong and the Tai Ping Factory. The Company has a formalized product development process that includes semiannual meetings of its worldwide product development and sales departments. In fiscal 1992, 1993 and 1994, the Company spent approximately \$158,000, \$652,000 and \$1,577,000, respectively, on research and development. The Company's research and development is heavily oriented toward market demand. Based on its ongoing contact with consumers, retailers and distributors worldwide, the Company's sales department seeks to understand and assist the product development teams in responding to consumer and retailer

preferences. The sales department also targets certain retail price points for new products which drive the Company's product development, with designs, features, materials, manufacturing and distribution all developed within the parameters of the target retail price.

The Company is also developing products other than personal casino theme games. In connection with the Manufacturing Agreement with IGT, the company expects to devote significant human resources to engineering and development during 1995 to assist in the design of products to be manufactured for IGT. In addition, the Company is developing a commercial computerized poker tournament game (Pub Poker™ / Free Poker™) which it intends to lease to pubs, bars and commercial entertainment establishments.

Emerging Businesses

The Company intends to begin marketing its Pub Poker product in the second fiscal quarter of 1995. The Pub Poker product is a large, handheld, portable poker game that contains both the draw poker and the wild deuces games. The game may be played by one or two players and is capable of being programmed at the location to play tournaments with the other games in the establishment. The Pub Poker is marketed in an eight pack configuration which contains a programmer charger and eight Pub Poker games. The Pub Poker games reside in slots in the programmer charger which recharges daily and from which the games can be programmed. The product can also be programmed for timed play should the establishment operator want to charge for the use of the game or to limit play if the games are in high demand.

The Pub Poker product has been designed to provide free entertainment to the patrons of pubs, bars and retail liquor establishments. It is anticipated that the Pub Poker eight packs will be leased to the establishments on a month-to-month basis with a required security deposit. The Company does not expect meaningful revenues from the Pub Poker business during the first three fiscal quarters of 1995. The Pub Poker project is in its early stages, and it is not certain that the product will be commercially successful.

Original Product Manufacturing for IGT

In February 1994, IGT acquired 9.2% of the Common Stock of the Company (after giving effect to the IPO). In connection with the purchase, the Company and IGT entered into the Original Product Manufacturing Agreement ("Manufacturing Agreement") pursuant to which the Company will manufacture certain commercial gaming machines for IGT commencing in 1995. The Manufacturing Agreement provides that after the New Factory is in operation, subject to certain conditions, IGT will order a minimum of 10,000 machines per year from the Company. The Manufacturing Agreement also establishes a pricing framework under which the parties establish a benchmark price for the machines each year through good faith negotiations. The parties then share in cost savings that result if the Company is able to manufacture at a lower cost than the benchmark price less a profit margin and also share in certain cost overruns. The pricing framework includes a further adjustment in the Company's favor if IGT orders less than 20,000 units in a year and in IGT's favor if it orders more than 20,000 units per year. The Company will also act as a non exclusive procurement agent for IGT for certain parts and raw materials used in other IGT products. The Manufacturing agreement has an initial term of six years commencing January 12, 1994, but can be terminated earlier by either party under certain circumstances, including failure to agree upon the price of the machines, and may be terminated by IGT under certain circumstances, including Radica's failure to complete the New Factory by May 31, 1995. The Company does not expect significant income from manufacturing commercial gaming machines in fiscal 1995.

The Company intends to pursue other manufacturing business for its New Factory in fiscal 1995. However it is uncertain whether the Company can successfully attract additional original product manufacturing business or that it will be profitable.

The Manufacturing Agreement provides that the patentable intellectual property of the Company that constitutes an improvement to and is necessary or useful for the manufacture or use of the products manufactured under the agreement will vest with IGT in the event the Company fails to apply for, proceed with an application for or maintain the effectiveness of a patent with respect to such intellectual property, provided that the Company shall have a royalty-free non-exclusive right to use such intellectual property. In addition, the Manufacturing Agreement grants IGT rights of first offer and first refusal with respect to certain other intellectual property of the Company.

Intellectual Property

The Company does not consider patent protection to be significant to its current operations.

Competition

The gifts and games business is highly competitive. Radica believes that it has a dominant market share of the U.S. market for non-gambling casino theme games. The Company's primary competitors are Tiger Electronics, Inc. ("Tiger"), and Microgames of America ("Microgames"). Tiger and Microgames both procure their products from manufacturers in China. The Company believes there are in excess of twenty-five other companies that manufacture one or more models of casino theme games. The barriers for new producers to enter the Company's markets are relatively low and the Company expects that it will face increased competition. The Company competes for consumer purchases on the basis of price, quality and game features and for retail shelf space also on the basis of service, including reliability of delivery, and breadth of product line. Some competitors offer products at lower prices than the Company, are better established in the toy and games industry and are larger than the Company. The Company's products also compete with non-casino theme gifts and games for consumer purchases. In addition, with respect to manufacturing casino gaming machines, the Company will compete with a number of substantially larger and more experienced manufacturers. As the Company enters other markets and businesses, it expects to face new competition.

Taxation of the Company and its Subsidiaries

There is currently no Bermuda income, corporation or profits tax payable by the Company. As an exempted company, the Company is liable to pay to the Bermuda government an annual registration fee calculated on a sliding scale basis by reference to its assessable capital, that is, its authorized share capital plus any share premium on its issued shares of Common Stock currently at a rate not exceeding \$25,000 per annum.

The highest marginal rate of Hong Kong corporate income tax was lowered from 17.5% to 16.5% effective April 1, 1994. Currently, Radica HK and another Hong Kong-based subsidiary pay Hong Kong corporate tax on service and sales income.

On July 1, 1994 the Company's manufacturing operations were transferred to Radica China. Because the Company operates in China only pursuant to the Processing Agreement, it is not subject to China tax. Upon the commencement of the joint venture respecting the New Factory, the Company will operate under a two year tax holiday in China, followed by a three year period of reduced tax at half the regular rate.

Following their acquisition by the Company, Radica USA and Disc ceased to be S Corporations and accordingly became fully subject to U.S. federal taxation, as well as any applicable state or local taxation, on their taxable income (including income, if any, imputed under applicable transfer pricing rules). Currently, the highest marginal rate of U.S. federal corporate income tax is 35%. In addition, dividends paid by Radica USA and Disc to the Company will be subject to a 30% U.S. federal withholding tax, resulting in an effective rate of U.S. federal taxation on distributed profits of up to 54.5%.

Employees

As of December 31, 1994 the Company had 1,598 full-time employees (146 in North America and 1,452 in Asia), of whom 107 worked in production processes including manufacturing, purchasing, materials, shipping and stores; 41 worked in sales and marketing; 36 worked in engineering and development and 49 worked in finance and administration. An additional 1,365 workers were employed under the Processing Agreement at the Tai Ping Factory. The Company believes that its future success will depend, in part, on its ability to continue to attract and retain highly skilled technical, marketing, support and management personnel.

None of the Company's employees are subject to a collective bargaining agreement and the Company has never experienced a work stoppage. Management believes that its employee relations are good.

RISK FACTORS

The shares of Common Stock of the Company involve a significant degree of risk. Prospective investors should carefully consider the following factors together with the other information contained herein prior to making any investment decision regarding the Company.

Risks of Manufacturing in China

Risk of China Losing Most Favored Nation Status or of Changes in Tariff or Trade Policies. The Company manufactures in China and exports from Hong Kong to the United States and worldwide. Its products sold in the United States are currently subject to U.S. import duties at a rate of 3.9% of their F.O.B. (free on board) price. China currently enjoys most favored nation ("MFN") trade status under U.S. tariff laws, which provides a favorable category of U.S. import duties. As a result of opposition to certain policies of the Chinese government and China's growing trade surpluses with the United States, there has been, and in the future may be, opposition to the extension of MFN status for China. The loss of MFN status for China, changes in current tariff structures or adoption in the United States of other trade policies adverse to China could have an adverse effect on the Company's business.

Most recently, on February 4, 1995, the U.S. government, acting through the U.S. trade representative, imposed sanctions in the form of higher import duties on certain Chinese-manufactured products. The U.S. government made a finding of damage to U.S. interests relating to the absence of protection for U.S. intellectual property in China relating particularly to audio-visual products, sound recordings and published written materials. As a consequence, U.S. import duties were increased to 100% on goods described in the U.S. notice of determination. Although the Company understands that its products are not affected by this action, this nevertheless demonstrates trade tensions between the United States and the Chinese government, which has announced that it will retaliate in kind. No assurances can be given as to the impact, or absence of impact, on the Company arising out of future trade disputes between the U.S. and Chinese governments. Any imposition of substantial import duties on the Company's products being manufactured in China would have a material adverse effect on the Company.

Chinese Political, Economic and Legal Risks. The success of the Company's current and future operations in China and Hong Kong (which will become a Special Administrative Region of China in 1997) is highly dependent on the Chinese government's continued support of economic reform programs that encourage private investment, and particularly foreign private investment. Although the Chinese government has adopted an "open door" policy with respect to foreign investment, there can be no assurance that such policy will continue. A change in policies by the Chinese government could adversely affect the Company by, among other things, imposing confiscatory taxation, restricting currency conversion, imports and sources of supplies, or expropriating private enterprises. Although the Chinese government has been pursuing economic reform policies for the past 15 years, no assurance can be given that the Chinese government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership or other social or political disruption.

China does not have a comprehensive system of laws. Enforcement of existing laws may be sporadic and implementation and interpretation thereof inconsistent. The Chinese judiciary is relatively inexperienced in enforcing the laws that exist, leading to a higher than usual degree of uncertainty as to the outcome of any litigation. Even where adequate law exists in China, it may be impossible to obtain swift and equitable enforcement of such law, or to obtain enforcement of a judgment by a court of another jurisdiction.

Dependence on Local Government. The Company does not own the Tai Ping Factory or the New Factory being constructed nearby to it. The Company will operate these factories under the Processing Agreement and a joint venture agreement (the "Joint Venture Agreement"), respectively, with the local government. Many aspects of such agreements and operation of these factories are dependent on the Company's relationship with the local government and existing trade practices. The Company is also dependent upon the local government for the construction of the New Factory. The relationship of the Company with the local government could be subject to adverse change in the future, especially in the event of a change in leadership or other social or political disruption.

Chinese Taxation. The Company has not paid any Chinese taxes and believes that, under current Chinese tax rules and practice, its activities in China have not subjected it to Chinese taxes. The legal form in which the Company will operate the New Factory is expected to result in the Company's operations in China being subject to Chinese taxation, as discussed elsewhere herein. The Chinese tax system is subject to substantial uncertainties and has been subject to recently enacted changes, the interpretation and enforcement of which are also uncertain. There can be no assurance that changes in Chinese tax laws or their interpretation or their application will not subject the Company to substantial Chinese taxes in the future.

Limited Infrastructure. Electricity, water, sewage, telephone, roads and other infrastructure are limited in the locality of the Tai Ping Factory and the New Factory. In the past, the Company has experienced temporary shortages of electricity and water supply. The Company has installed two back-up electrical generators which can support the Tai Ping Factory in the event of a power shortage. There can be no assurance that the infrastructure on which the Tai Ping Factory is dependent will be adequate to operate the Tai Ping Factory or the New Factory successfully.

Dependence on Product Appeal and New Product Introductions; Limited Range of Products

The Company's operating results depend largely upon the appeal of its products to consumers. Consumer preferences are highly subjective, and there can be no assurance that consumers will continue to find existing products appealing or will find new products appealing. In addition, the Company's current range of products is limited to games related to casino themes.

Many of the Company's products have been only recently introduced and although they have experienced strong initial sales growth, there is no assurance that such initial success is indicative of significant future sales of such products and the Company expects that the sales of these products will eventually decline. The Company cannot predict how long the product cycle will last for any product. The Company's long-term operating results will therefore depend largely upon its continued ability to conceive, develop and introduce new appealing products at competitive prices. Future products may utilize different technologies and require knowledge of markets in which the Company does not presently participate. Significant delays in the introduction of, or the failure to introduce, new products or improved products would have an adverse effect on the Company's operating results.

No Assurance of Continued Growth or of Adequate Management of Growth

The Company has achieved rapid growth in net sales and net income in the last three fiscal years. There can be no assurance that the Company will continue to achieve growth in net sales and net income or that it will be able to maintain its present levels of net sales and net income.

There also can be no assurance that the Company will be able to properly manage any future growth, including, among other things, obtaining necessary supplies or manufacturing or delivering products for increased orders, if any, in a timely manner. Any future growth may also require the Company to rely more heavily on subcontractors to assemble its products. Historically, the Company has operated with very little order backlog. However, in order to support anticipated growth, the Company currently intends to increase its inventories and its staff and other operating expenses as well as its capital expenditures. Consequently, if the Company is not able to achieve anticipated growth, its operating results would be adversely affected. In addition, there can be no assurance that the Company's management will be able to properly manage an expanded Company or that it will be able to attract, incorporate, train and retain sufficient new management and personnel.

Dependence on Major Customers

Historically, a significant portion of the Company's sales has been concentrated in a few large retail customers. See Note 13 of Notes to Consolidated Financial Statements included herein. Most of the Company's retail customers operate on a purchase-order basis and the Company does not have long-term contracts with its retail customers. While management considers the Company's relationships with its major retail customers to be good, the loss of one or more of its major retail customers would have an adverse effect on the Company's results of operations. In addition, if the Company is able to manufacture commercial gaming machines for IGT successfully, that business may in the future become a significant part of the Company's business.

Dependence on Suppliers and Subcontractors

The Company is dependent on suppliers for the components and parts that it assembles to produce its products and is also dependent on subcontractors to assemble a significant portion of the Company's products. The Company generally purchases the specific LCDs or semiconductor chips

for any particular product model from a single supplier. While the Company believes that there are alternative sources for all of its supplies, an interruption of the supply of LCDs, semiconductor chips or other supplies from a supplier could result in significant production delays.

Concentrated Manufacturing Facilities

A disruption of operations at the Tai Ping Factory, the New Factory when its completed or the interim factory due to fire, labor dispute, dispute with the local government or otherwise, would have an adverse effect on the Company's results of operations. In such event, the Company believes that it could partially mitigate the effect of a disruption by increasing the use of subcontractors to assemble its products, but there can be no assurance that it would be able to do so. In addition, all of the Company's manufacturing facilities are in the same locality near Tai Ping and dependent on the Company's relationship with the local government.

No Assurance of Success in New Business

In order to sustain growth, Radica intends to expand into related businesses, including original product manufacturing of commercial gaming machines and development and production of commercial non-gambling casino theme games. The Company has no previous experience in these new businesses. While several of the Company's executive officers have extensive experience in manufacturing commercial gaming machines in the United States, including Mr. Davids, there can be no assurance that the Company will be able to manufacture commercial gaming machines in China for IGT successfully. Also, since the pricing terms and specifications for the machines to be sold to IGT have not been established, there can be no assurance that such manufacturing will be profitable. In addition, the Manufacturing Agreement can be terminated by either party under certain circumstances, including failure to agree upon the price of the machines after good faith negotiations, and may be terminated by IGT under certain circumstances, including the Company's failure to complete the New Factory by May 31, 1995. While the Company intends to try to expand its manufacturing for IGT, particularly for machines exported to potential growth markets in Asia, there can be no assurance that IGT will order more than the minimum 10,000 units per year required by the Manufacturing Agreement, that IGT will use the Company to manufacture other machines or that IGT's sales of machines or pursuit of other new businesses will not dilute management time and effort and therefore adversely effect the Company's current business.

Dependence on Key Personnel

The success of the Company is substantially dependent upon the expertise and services of Mr. Davids, President and Chief Officer of the Company, Mr. Sutter, Chairman of the Board and Executive Vice President of the Company, and certain other senior management personnel. The loss of the services of either Mr. Davids or Mr. Sutter would have an adverse effect on the Company's business. The Company maintains "key man" life insurance policies on Mr. Davids and Mr. Sutter, in the amount of \$1 million each.

Seasonality

The Company experiences a significant seasonal pattern in its operating results and working capital requirements. The Company typically generates most of its sales in the third and fourth quarters of its fiscal year, prior to the traditional gift season. The Company expects this seasonal pattern to continue for the foreseeable future but to become less pronounced as retailers increasingly sell its products year round. The Company's operating results may also fluctuate during the year due

to other factors such as the timing of the introduction of new products. The market price of the Common Stock could be subject to significant fluctuations in response to variations in quarterly operating results and other factors. See Note 20 of Notes to Consolidated Financial Statements included herein.

Competition

The gifts and games business is highly competitive. Although the Company currently faces direct competition from only a limited number of other producers of non-gambling casino theme games, the barriers for new producers to enter into the Company's markets are relatively low and the Company expects that it will face increased competition. Some competitors offer products at lower prices, are better established in the toy and games industry and are larger than the Company. The Company's products also compete with non-casino theme gifts and games for consumer purchases. In addition, with respect to manufacturing commercial gaming machines, the Company will compete with a number of substantially larger and more experienced manufacturers. As the Company enters other markets and businesses, it expects to face new competition.

Control by Existing Shareholders

Mr. Davids, Mr. Sutter, IGT, and the Hansen Trust (a trust or trusts of the family of Mr. John N. Hansen) own beneficially in aggregate approximately 65.4% of the outstanding Common Stock. Mr. Davids, Mr. Sutter, IGT and the Hansen Trust have entered into an agreement with the Company, as amended as of February 16, 1994 (the "Shareholders Agreement"), pursuant to which they have agreed to vote for each other's nominees in the election of directors. Consequently, they will have the power to elect the Company's directors and to approve or disapprove all other matters requiring shareholders' approval regardless of the vote of any other shareholders.

Enforceability of Civil Liabilities

The Company is a Bermuda holding company, and a substantial portion of its assets are located outside the United States. In addition, certain of the Company's directors and officers and certain of the experts named herein are resident outside the United States (principally in Hong Kong), and all or a substantial portion of the assets of such persons are or may be located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons, or to enforce against them or the Company judgments obtained in the United States courts predicated upon the civil liability provisions of the United States securities laws. Among other things, the Company understands that there is doubt as to the enforceability in Bermuda and Hong Kong, respectively, in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated solely upon the United States securities laws.

Shares Eligible for Future Sale

The Company currently has 22,780,000 shares of Common Stock outstanding. Of such amount, the 7,141,000 shares sold in the initial public offering (other than any shares which were purchased by "affiliates" of the Company) are tradeable without restriction. Substantially all of the remaining shares owned by existing shareholders are restricted securities under the Securities Act of

1933, as amended (the "Securities Act") and may be sold only pursuant to a registration statement under the Securities Act or an applicable exemption from the registration requirements of the Securities Act, including Rule 144 and Rule 144A thereunder. Substantially all of the shares owned by Mr. Davids, Mr. Sutter and the Hansen Trust and certain other shares owned by certain officers of the Company are currently eligible for sale pursuant to Rule 144, subject to the limitations of such rule. The shares held by Messrs. Davids and Sutter are subject to certain other restrictions on transfer. In addition, the Company has granted to Mr. Davids, Mr. Sutter, the Hansen Trust and IGT certain registration rights with respect to their shares. No predictions can be made as to the effect, if any, that market sales of shares by existing shareholders or the availability of such shares for future sale will have on the market price of Common Stock prevailing from time to time. The prevailing market price of Common Stock could be adversely effected by future sales of Common Stock by existing shareholders.

ITEM 2. DESCRIPTION OF PROPERTIES

Radica uses the Tai Ping Factory (91830 sq. ft., including factory space and dormitory facilities) pursuant to the terms of the Processing Agreement. The Company has leased an additional 118,000 sq. ft. of factory space and dormitory facilities near the Tai Ping Factory. See Item 1 "Manufacturing Facilities." The Company is constructing the New Factory on a 3.7 acre parcel of land acquired through the Joint Venture Agreement. It is anticipated that phase one of the construction will be completed in May 1995 and the final phase of the project completed in 1996. The Company owns a 52 year leasehold on its executive offices (7,600 sq. ft.) and warehouse space (7,900 sq. ft.) in Fo Tan, Hong Kong. In addition the Company leases storage space in Fo Tan, Hong Kong and storage and office space in Dallas, Texas, Reno, Nevada and Las Vegas, Nevada.

ITEM 3. LEGAL PROCEEDINGS

On July 25, 1994 the first of ten purported class actions were filed in various United States District Courts against the Company, various of its officers and directors, and the managing underwriters of the Company's initial public offering. These complaints have been consolidated in the United States District Court for the district of Nevada under the caption In re Radica Games Limited Securities Litigation, Master File No. CV-S-94-00653-PMP (LRL). The plaintiffs filed a consolidated complaint on November 4, 1994 that superseded all the complaints in the individual actions.

The named plaintiffs seek to represent a class consisting of purchasers of the Company's common stock in the initial public offering or in the open market from May 13, 1994 through July 22, 1994. The plaintiffs seek unquantified monetary damages and other relief against the defendants for alleged violations of sections 11, 12(2), and 15 of the Securities Act of 1933, Sections 10b (and Rule 10b-5 thereunder), 20(a), and 20A(a) of the Securities Exchange Act of 1934, Sections 90.570, 90.660, and 660.4 of the Nevada Revised Statutes, and common law of Nevada relating to the Company's registration statement and other public disclosures.

The litigation is in a preliminary stage. The Company believes the allegations of the consolidated complaint are without merit and intends to defend the action vigorously.

ITEM 4. CONTROL OF REGISTRANT

- (a) The registrant is not controlled by another corporation or any foreign government.
- (b) The following table outlines the owners of more than ten percent (10%) of the registrant's common stock and the amount of common stock owned by the officers and directors as a group:

<u>Title of Class</u>	<u>Identity of Person or Group</u>	<u>Amount Owned</u>	<u>Percent of Class</u>
Common stock	Robert E. Davids	5,200,000	22.8%
Common stock	James J. Sutter	5,300,000	23.3%
Common stock	Officers & Directors as a Group	10,879,400	47.8%

- (c) There are no arrangements known to the registrant which may at a subsequent date result in a change of control of the registrant.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's common stock is traded on the Nasdaq National Market under the symbol RADAF. The Company's common stock is not traded on any foreign trading market. The following table lists the high and low closing stock price for each quarter since the Company's initial public offering on May 13, 1994.

	<u>High</u>	<u>Low</u>
<u>Fiscal year 1994</u>		
Third Quarter	\$ 11 1/2	\$ 4 5/8
Fourth Quarter	7	4 3/4

Radica Games Limited was formed in 1994 as a holding company and has not paid any dividends. Prior to the Company's initial public offering, Radica HK paid a \$3.1 million dividend declared in fiscal 1993 to its shareholders and Radica USA paid no dividends. As part of the reorganization, Radica USA distributed to its shareholders all of its previously earned and undistributed taxable S Corporation earnings through the date of termination of its S Corporation status (\$3,704,475). Except to the extent set forth below, the Company intends to retain its earnings for operation and expansion of its business for the foreseeable future. The payment of any future dividends will be at the discretion of the Board of Directors and will depend upon, among other factors, the Company's earnings, financial condition, capital requirements and general business outlook at the time the payment is considered. The Company intends to make cash distributions at the end of its taxable year at least equal to 50% of its foreign personal holding company income for any year in which it is a personal foreign holding company.

The Company has approximately 105 record holders of its Common Stock, and approximately 49% of such stock is held by U.S. holders.

ITEM 6. EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS

The Company has been designated as non-resident of Bermuda for exchange control purposes by the Bermuda Monetary Authority.

The transfer of shares of the Company between persons regarded as resident outside Bermuda for exchange control purposes and the issue of shares to or by such persons may be effected without specific consent under the Exchange Control Act 1972 and regulations thereunder subject to such shares being listed on the National Association of Securities Dealers Automated Quotation System or other appointed stock exchange (as defined in the Companies Act). Issues and transfers of shares involving any person regarded as resident in Bermuda for exchange control purposes require specific prior approval under the exchange Control Act 1972.

There are no limitations on the rights of non-Bermuda owners of the Common Stock to hold or vote their shares. Because the Company has been designated as non-resident for Bermuda exchange control purposes, there are no restrictions on its ability to transfer funds in and out of Bermuda or to pay dividends to United States residents who are holders of the Common Stock, other than in respect of local Bermuda currency.

In accordance with Bermuda law, share certificates are only issued in the names of corporations or individuals. In the case of an applicant acting in a special capacity (for example, as an executor or trustee), certificates may, at the request of the applicant, record the capacity in which the applicant is acting. Notwithstanding the recording of any such special capacity, the Company is not bound to investigate or incur any responsibility in respect of the proper administration of any such estate or trust.

The Company will take no notice of any trust applicable to any of its shares whether or not it had notice of such trust.

As an exempted company, the Company is exempt from the usual Bermuda requirement which restricts the percentage of share capital that may be held by non-Bermudians, but as an exempted company the Company may not participate in certain business transactions, including: (1) the acquisition or holding of land in Bermuda (except that required for its business and held by way of lease or tenancy for terms of not more than 21 years); (2) the taking of mortgages on land in Bermuda to secure an amount in excess of \$50,000 without the consent of the Minister of Finance of Bermuda; (3) the acquisition of securities created or issued by, or any interest in, any local company or business, other than certain types of Bermuda government securities or securities of another exempted company, partnership or other corporation resident in Bermuda but incorporated abroad; or (4) the carrying on of business of any kind in Bermuda, except in furtherance of the business of the Company carried on outside Bermuda or under a license granted by the Minister of Finance of Bermuda.

TEM 7. TAXATION

The following discussion is a summary of certain anticipated tax consequences of the ownership of Common Stock under Bermuda tax laws, Hong Kong income tax laws and United States Federal income tax laws. The discussion does not deal with all possible tax consequences relating to the Company's operations or to the ownership of Common Stock. In particular, the discussion does not address the tax consequences under State, local and other (e.g., non-Bermuda, non-Hong Kong and non-United States Federal) tax laws. Accordingly, each owner should consult his tax advisor regarding the tax consequences of the ownership of Common Stock. The discussion is based upon laws and relevant interpretations thereof in effect as of the date of this report, all of which are subject to change.

Bermuda Taxation

The Company is incorporated in Bermuda. At date of this filing, there is no Bermuda income, corporation or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by shareholders of the Company other than shareholders ordinarily resident in Bermuda. The Company is not subject to stamp or other similar duty on the issue, transfer or redemption of its shares of Common Stock. Furthermore, the Company has received from the Minister of Finance of Bermuda under The Exempted Undertakings Tax Protection Act 1966, an assurance that, in the event that Bermuda enacts any legislation imposing any tax computed on profits or income, or computed on any capital assets, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, the imposition of such tax shall not be applicable to the Company or any of its operations, or to the shares, debentures or other obligations of the Company, until March 28, 2016. This assurance does not, however, prevent the imposition of any such tax or duty on such persons as are ordinarily resident in Bermuda and holding such shares, debentures or obligations of the Company or on land in Bermuda leased or let to the Company.

The United States does not have a comprehensive income tax treaty with Bermuda.

Hong Kong Taxation

Under the laws of Hong Kong, as currently in effect, a holder of Common Stock is not subject to Hong Kong tax on dividends paid with respect to such shares and no holder of Common Stock is liable for Hong Kong tax on gains realized on sale or other disposition of such Common Stock except that those persons who are classified for Hong Kong tax purposes as dealers in securities in Hong Kong may be subject to Hong Kong tax in respect of any gain resulting on the disposition of Common Stock. Hong Kong does not impose a withholding tax on dividends paid by the Company or its subsidiaries. In addition, the Company will not be subject to Hong Kong taxes as a result of its receipt of dividends from any of its subsidiaries.

United State Federal Income Taxation

General. The following is a general discussion of the principal U.S. federal income tax consequences to a U.S. Holder (as defined below) of the ownership of Common Stock and does not address the U.S. tax treatment of certain types of investors (e.g., individual retirement and other tax deferred accounts, life insurance companies, tax-exempt organizations, dealers in securities and

persons owning directly or indirectly (under constructive ownership rules) 10% or more of the Common Stock), all of whom may be subject to tax rules that differ significantly from those summarized below.

A "U.S. Holder" is a beneficial owner of Common Stock that is a U.S. citizen or resident, a domestic corporation or otherwise subject to U.S. federal income taxation on a net income basis in respect of the Common Stock.

Dividends. Subject to the FPHC discussion below, a U.S. Holder receiving a distribution on Common Stock will be required to include such distribution in gross income as a dividend to the extent such distribution is paid from current or accumulated earnings and profits of the Company as determined under U.S. federal income tax law. Distributions in excess of the earnings and profits of the Company will first be treated, for U.S. federal income tax purposes, as a nontaxable return on capital to the extent of the U.S. Holder's basis in the Common Stock and then as gain from the sale or exchange of a capital asset. Dividend income with respect to the Common Stock generally will constitute foreign source "passive" income or in the case of certain U.S. Holders "financial services" income for purposes of the foreign tax credit limitation. A corporate shareholder will not be eligible for the dividends received deduction.

Sale or Exchange of Common Stock. Gain or loss on the sale or exchange of the Common Stock by a U.S. Holder generally will be treated as capital gain or loss and will be long-term capital gain or loss if the U.S. Holder has held the Common Stock for more than one year at the time of the sale or exchange. Gain, if any, realized by a U.S. Holder will generally be U.S. source gain.

FPHC Rules. A foreign corporation will be classified as a foreign personal holding company ("FPHC") if (i) five or fewer individuals who are U.S. citizens or residents directly or indirectly own more than 50% of the corporation's stock (measured either by voting power or value) (the "shareholder test") and (ii) more than 50% (or 60%, in certain years) of its gross income, as specially adjusted, consists of foreign personal holding company income (defined generally to include dividends, interest, royalties, rents, gains from the sale of stock or securities and certain other types of passive income) (the "income test"). U.S. citizens or residents, domestic corporations, domestic partnerships and estates or trusts other than foreign estates or trusts who are shareholders of FPHCs ("U.S. shareholders") are required to include in income the undistributed income of a FPHC.

The shareholder test was met in 1994, but the Company is not a FPHC because it does not meet the income test. The Company intends to manage its business such that it will not meet the income test until such time that it begins to receive significant dividends from its subsidiaries, which is not expected to occur in the foreseeable future. The Company would then be a FPHC only if, at such time, it continued to meet the shareholder test.

If the Company is a FPHC for any year, each U.S. shareholder who holds Common Stock on the last day of the Company's taxable year (currently, October 31) or, if earlier, on the last day on which the ownership test is met, would be required to include in income as a dividend its pro rata share of the Company's undistributed foreign personal holding company income. The shareholder's tax basis in the Common Stock would be increased by the amount included in income. Such income would be taxable to any such U.S. shareholder as a dividend whether or not distributed in cash. For any year

in which the Company is a FPHC, any 5% or greater U.S. shareholder would be required to report on its tax return in complete detail the gross income, deductions and credits, taxable income, FPHC income and undistributed FPHC income of a FPHC. The Company will furnish any shareholder required so to report the information required to be reported. In addition, any holder who acquires Common Stock from a decedent would be denied the date of death value as the tax basis for such Common Stock (which would have a basis equal to the lower of fair market value or the decedent's basis) if the Company was a FPHC with respect to its taxable year next preceding the date of the decedent's death.

For any year in which it is a FPHC, the Company intends to make cash distributions to shareholders of record on the last day of its taxable year in an amount at least equal to 50% of its foreign personal holding company income (which amount should be sufficient for shareholders to pay U.S. federal and state income taxes on such distributions and any undistributed foreign personal holding company income taxable as a dividend).

PHC Rules. A corporation (including a foreign corporation that is not a FPHC) will be classified as a personal holding company ("PHC") if (i) five or fewer individuals (without regard to their citizenship or residence) directly or indirectly own more than 50% in value of the corporation's stock (the "shareholder test") and (ii) at least 60% of its ordinary gross income, as specially adjusted, consists of personal holding company income (defined generally to include dividends, interest, royalties, rents and certain other types of passive income) (the "income test"). A PHC is subject to a U.S. federal income tax of 39.6% on its undistributed personal holding company income (generally limited, in the case of a foreign corporation, to U.S. source income).

Although the shareholder test was met in 1994, the Company intends to manage its business such that it will not be a PHC. The Company intends to cause any subsidiary that is a PHC to make distributions on a basis such that it will not have undistributed personal holding company income.

ITEM 8. SELECTED FINANCIAL DATA

The selected financial data below should be read in conjunction with the combined financial statements and notes thereto included elsewhere in this document. The selected income statement and balance sheet data for each of the three years in the period ended October 31, 1994 are derived from financial statements of the Company included herein which have been audited by Deloitte Touche Tohmatsu, Hong Kong, independent auditors and the selected income statement and balance sheet data for each of the two years in the period October 31, 1991 are derived from the audited financial statements of the Company.

	Year Ended October 31,				
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
	(in thousands, except per share data and margins)				
Income Statement Data:					
Net sales	\$ 4,222	\$ 5,154	\$ 9,853	\$32,505	\$72,092
Cost of sales	<u>2,474</u>	<u>2,802</u>	<u>5,334</u>	<u>16,085</u>	<u>37,823</u>
Gross profit	<u>1,750</u>	<u>2,352</u>	<u>4,519</u>	<u>16,420</u>	<u>34,269</u>
Operating expenses:					
Selling, general and administrative	1,232	1,270	2,422	4,766	13,677
Research and development	<u>208</u>	<u>129</u>	<u>158</u>	<u>652</u>	<u>1,577</u>
Total operating expenses	<u>1,440</u>	<u>1,399</u>	<u>2,580</u>	<u>5,418</u>	<u>15,254</u>
Operating income (loss)	310	953	1,939	11,002	19,015
Interest income (expenses)	<u>(78)</u>	<u>(33)</u>	<u>(41)</u>	<u>(65)</u>	<u>95</u>
Income (loss) before income taxes	232	920	1,898	10,937	19,110
Income taxes	<u>44</u>	<u>152</u>	<u>186</u>	<u>860</u>	<u>1,950</u>
Net Income (loss)	<u>\$ 188</u>	<u>\$ 768</u>	<u>\$ 1,712</u>	<u>\$10,077</u>	<u>\$17,160</u>
Net income (loss) per share	\$ 0 01	\$ 0 04	\$ 0 09	\$ 0 51	\$ 0 81
Weighted average shares outstanding	18,000	18,000	18,728	19,696	21,308
Statistical Data:					
Gross Margin	41.5%	45.6%	45.9%	50.5%	47.5%
Operating margin	7.3%	18.5%	19.7%	33.8%	26.4%
Dividends per share (1)	-	-	-	\$0 16	\$ 0 17

	October 31,				
	<u>1990</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
	(in thousands)				
Balance Sheet Data:					
Working capital	\$ (141)	\$ 536	\$1,887	\$ 7,687	\$39,733
Total assets	2,131	2,096	5,755	21,826	85,691
Long-term debt	220	-	600	30	73
Total debt	869	25	1,524	2,849	17,038
Shareholders' equity	692	1,460	3,187	10,365	57,821

- (1) During the periods presented the only dividends paid were cash dividends of \$3,064 paid in respect of fiscal 1993 to the then shareholders of Radica HK and \$3,704 paid in respect at fiscal 1994 to the then shareholders of Radica USA following termination of the S Corporation status.

ITEM 9. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Fiscal 1994 Compared to Fiscal 1993

Net sales for the year ended October 1994 of \$72.1 million increased 122% from the \$32.5 million for the prior year. Eight new ranges of products consisting of 33 new models were introduced during the year, including a range of key-ring games, a range of 'Video' series games, a range of upscale flip lid models and the new Riverboat models, a mid-size electronic table top range of games, as well as improvements to some models of existing table top games. Approximately 80% of sales related to handheld models and 20% to tabletop modes in comparison to 86% and 14% respectively in fiscal 1993. During 1994, the Company sold 32 different models of handheld games, totalling 7.7 million units, compared to 8 models totalling 3.5 million units in 1993 and 24 different models of tabletop games totalling 1.6 million units, compared to 13 different models and 0.5 million units in 1993. The total number of units sold increased 128% from the 4.1 million sold in 1993.

Gross profit for the year ended October 1994 was \$34.3 million as compared to \$16.4 million for fiscal 1993, an increase of 109%. The gross margin for the year of 47.5% was down from 50.5% for fiscal 1993. This decline is due primarily to peak season inefficiencies in the fourth quarter production ramp up. To a lesser extent, the margin was impacted by the introduction of lower priced products that carry lower margins, primarily the key chain and 'Video' series products.

Operating expenses for the year 1994 were \$15.3 million, up 182% over fiscal 1993. Operating expense increases were due primarily to increases in research and development expenditure, increases in staffing and facilities to support increased sales demand and increased variable expenses associated with the increase in sales. Research and development increased 142% over fiscal 1993 to \$1.6 million. Compensation expenses increased approximately \$2.1 million due to staff increases in Hong Kong and the U.S.A. operations to handle increased sales volumes as well as the start-up of the Mexican manufacturing operation. Commissions to outside sales representatives increased by \$3.2 million in the year ended October 1994 as a result of the Company distributing its product through Radica USA instead of using independent distributors.

Operating income for the year ended October 1994 was \$19.0 million versus \$11.0 million for the same period last year, an increase of 73%. The operating margin for the year was 26.4% compared to 33.8% for fiscal 1993 due primarily to increases in operating expenses to support increased sales volumes.

The effective blended tax rate for the year ended October 1994 was 10.2% compared to 7.9% for fiscal 1993. This is due to the fact that the effective U.S.A. tax rate of 34% has only been in effect since the Company terminated its S Corporation status on May 20, 1994 and the 8.25% effective tax rate of the operations in Hong Kong and 0% effective tax rate of the manufacturing operation in China conducted by a British Virgin Islands subsidiary.

Net income for the year ended October 1994 was \$17.2 million, up from net income of \$10.1 million in fiscal 1993, an increase of 70%. The net income per common share in the year ended October 1994 was \$0.81 as compared to \$0.51 for fiscal 1993.

Capital Resources and Liquidity

Cash and cash equivalents totalled \$11 million at October 31, 1994, up \$6.3 million from year-end 1993. Working capital at October 31, 1994 was \$39.7 million, a \$32.1 million increase from working capital of \$7.6 million at October 31, 1993. The increase in working capital is due primarily to the increases in net income over the same period and the initial public offering of the Company's shares. The ratio of current assets to current liabilities increased to 2.1 at October 31, 1994 from 1.7 at October 31, 1993. This increase in the current ratio is also due to the increases in net income over the same period and the liquidity provided by the proceeds from the Company's initial public offering.

Short-term borrowings of \$15.5 million at October 31, 1994 were up \$12.8 million from \$2.7 million at October 31, 1993. This increase was due primarily to securing credit lines for the purchase of raw materials for the manufacturing operation to meet increased sales demand.

The Company believes that its existing cash and cash equivalents and cash generated from operations are sufficient to satisfy its current anticipated working capital needs of its core business. It is expected that additional capital will be required to fully implement a successful Pub Poker line of business. The Company believes it will be able to provide adequate capital through bank borrowings or public debt.

Fiscal 1993 Compared to Fiscal 1992

Net sales were \$32.5 million in fiscal 1993, an increase of \$22.7 million, or 230%, as compared with \$9.9 million in fiscal 1992. The Company sold approximately 4.1 million units in fiscal 1993, an increase of 308% over units sold in the previous year. This increase was due primarily to increased sales of the Company's handheld games, which benefitted from increases in the number of retailers and distributors selling such products and in the number selling such products throughout the year as opposed to only during traditional gift seasons. Sales were also favorably affected by the inclusion of a full year's sales of products introduced during fiscal 1992 and an increase in the number of different models offered to retailers and distributors in fiscal 1993. A number of large retailers began selling the Company's products in fiscal 1993, particularly in the second half. Net sales benefitted from the Company's strategy to sell more products directly to retailers through Radica USA rather than through distributors, as such sales are generally made at more favorable margins.

Existing products, primarily handheld poker and blackjack games, accounted for approximately 60% of the increase in net sales during fiscal 1993, while new products, primarily handheld slot and keno games, accounted for approximately 40% of the increase in net sales. Sales of handheld games increased to approximately 3.5 million units in fiscal 1993, an increase of over fourfold, and accounted for 86.4% of net sales, up from 67.2% of net sales in fiscal 1992. Sales of tabletop games increased to approximately 550,000 units in fiscal 1993, an increase of over 60% from fiscal 1992, and

accounted for 13.2% of net sales. The shift in product mix from tabletop games to handheld games was due mainly to the strong demand for handheld games from retailers.

Gross profit was \$16.4 million in fiscal 1993, an increase of \$11.9 million, or 263%, as compared with \$4.5 million in fiscal 1992. The gross margin improved to 50.5% from 45.9%, due primarily to increased sales by Radica USA directly to retailers. Excluding the effect of such Radica USA sales, the gross margin of the Company remained approximately the same. Lower labor costs at the Tai Ping Factory, cost saving design improvements to products and improved prices from suppliers due to increased volume purchases were offset by increased volume purchases of the Company's products by retailers and distributors at lower prices.

Operating expenses were \$5.4 million in fiscal 1993, an increase of \$2.8 million, or 110%, as compared with \$2.6 million in fiscal 1992. The increase in operating expenses was due primarily to an increase in selling, general and administrative expenses to \$4.8 million as compared with \$2.4 million in the previous year. This increase included, among other things, an increase in salaries and compensation to \$1.5 million in fiscal 1993 from approximately \$644,000 in fiscal 1992, reflecting an increase in the number of salaried employees in the Company, an increase in sales commissions paid to sales representatives to approximately \$556,000 in fiscal 1993 from approximately \$26,000 in fiscal 1992, due principally to increased reliance on sales representatives for sales through Radica USA and an increase in freight and insurance to approximately \$284,000 in fiscal 1993 from approximately \$65,000 in fiscal 1992 due to increased sales volume. Research and development expenses increased over 300% to approximately \$652,000, or 2.0% of net sales, compared to approximately \$158,000, or 1.6% of net sales, in the previous year, reflecting the Company's increased product development efforts. Operating expenses as a percentage of net sales decreased to 16.7% in fiscal 1993 from 26.2% in fiscal 1992, reflecting economies of scale and a lag in the build-up of selling, general and administrative expenses arising from the rapid increase in sales volume.

As a result of these factors, operating income was \$11.0 million in fiscal 1993, an increase of \$9.1 million, or 467%, as compared with \$1.9 million in fiscal 1992 and the operating margin improved to 33.8% from 19.7%. The Company's pro forma effective income tax rate was 7.97% in fiscal 1993, compared to 9.87% in fiscal 1992. Net income was \$10.1 million in fiscal 1993, an increase of \$8.4 million, or 489%, as compared with \$1.7 million in fiscal 1992.

Fiscal 1992 Compared to Fiscal 1991

Net sales were \$9.9 million in fiscal 1992, an increase of \$4.7 million, or 91%, as compared with \$5.2 million in fiscal 1991. The Company sold 992,000 units in fiscal 1992, an increase of 90.4% over units sold in the previous year. New products accounted for most of the increase in net sales in fiscal 1992 while net sales of existing and improved products accounted for only 16.2% of the increase in net sales over the previous year. New products included a smaller, less expensive, one-player handheld poker game, handheld blackjack games and an improved version of the two-player handheld poker game. Increased net sales also reflected an increase in the number of retailers and distributors selling the Company's product.

New products accounted for approximately 80% of the increase in net sales during fiscal 1992 while existing products accounted for approximately 20% of the increase in net sales. Sales of handheld games increase more than fourfold in fiscal 1992 to approximately 659,000 units and accounted for 67.2% of net sales up from 28.7% of net sales in the previous year. Sales of tabletop games, however, decreased to approximately 333,000 units, down 14.8% from fiscal 1991, and

accounted for 32.8% of net sales. The shift in product mix from tabletop games to handheld games was due mainly to the strong demand for handheld games from retailers and was due in part to a decline in sales of tabletop mechanical models.

Gross profit was \$4.5 million in fiscal 1992, an increase of \$2.1 million, or 92%, as compared with \$2.4 million in fiscal 1991. The gross margin remained relatively stable at 45.9% compared to 45.6% for the previous year. Lower direct labor cost resulting from moving production from Hong Kong to the Tai Ping Factory in February 1992 was offset by initial production inefficiencies in commencing operations at, and write-offs incurred in connection with the move to, the Tai Ping Factory.

Operating expenses were \$2.6 million in fiscal 1992, an increase of \$1.2 million, or 84.4%, as compared with \$1.4 million in fiscal 1991, due primarily to an increase in selling, general and administrative expenses, including expenses related to moving production from Hong Kong to the Tai Ping Factory. However, operating expenses as a percentage of net sales decreased to 26.2% in fiscal 1992 from 27.1% in 1991, as a result of economies of scale arising from the increase in sales volume.

As a result of these factors, operating income was \$1.9 million in fiscal 1992, an increase of \$1.0 million, or 104%, as compared with \$953,000 in fiscal 1991 and the operating margin improved to 19.7% from 18.5%. The Company's effective pro forma income tax rate declined to 9.5% in fiscal 1992, as compared with 16.5% in fiscal 1991, primarily due to moving the Company's production activities to the Tai Ping Factory in southern China, after which 50% of Radica HK's income has been apportioned as not subject to Hong Kong income tax. Net income increased to \$1.7 million in fiscal 1992, an increase of \$944,000, or 123%, as compared with \$768,000 in fiscal 1991.

ITEM 10. DIRECTORS AND OFFICERS OF REGISTRANT

The following table sets forth the directors and executive officers of the Company.

<u>Name</u>	<u>Term Expires</u>	<u>Residency</u>	<u>Position (1)</u>
Robert E. Davids	1995	Hong Kong	President, Chief Executive Officer and Director
James J. Sutter	1995	Hong Kong	Chairman of the Board, Executive Vice President and Director
Jon N. Bengtson	1995	U.S.A.	Executive Vice President, Chief Financial Officer and Director
David C.W. Howell	1995	Hong Kong	Vice President, Chief Accounting Officer and Director

<u>Name</u>	<u>Term Expires</u>	<u>Residency</u>	<u>Position (1)</u>
Lam Siu Wing	1995	U.S.A.	Vice President, Engineering and Director
John N. Hansen(2)	1995	U.S.A.	Director
Calvin A.J. Waller(3)(4)	1995	U.S.A.	Director
Robert Townsend(3)(4)	1995	U.S.A.	Director
James O'Toole(3)(4)	1995	U.S.A.	Director
Raymond D. Pike(3)(4)	1995	U.S.A.	Director

- (1) The Company intends to appoint one additional outside director. It is expected that such additional outside director will be appointed to the Audit Committee and the Compensation Committee.
- (2) Mr. Hansen served as a director of the Company from June 1994 until his death in January 1995.
- (3) Member of the Audit Committee.
- (4) Member of the Compensation Committee.

Pursuant to the Shareholders Agreement between the controlling shareholders and the Company, the Board of Directors of the Company will consist of 11 members, elected as provided in such Shareholders Agreement. As of the date of this filing, ten such directors have been elected. John N. Hansen had been the representative of the Hansen Trust. Due to Mr. Hansen's death, a new director representing the Hansen Trust is expected to be nominated at the Company's 1995 annual meeting of shareholders.

Robert E. Davids has been the Chief Executive Officer of the Company since January 1994, and the President and a director since December 1993. Prior to that, Mr. Davids had been the Co-Chief Executive Officer with Mr. Sutter and a director of Radica HK since he joined the Company in 1988. Mr. Davids has over 30 years experience in the development, design and engineering of non-gambling casino gifts, commercial gaming machines, automobiles and other products. From 1984 until he joined the Company, he was the General Manager of Prospector Gaming Enterprises Inc., a casino in Reno, Nevada. From 1978 through 1984, Mr. Davids served in various positions at IGT, including Director of Special Projects and Director of Engineering.

James J. Sutter has been the Chairman of the board of the Company since January 1994, and the Executive Vice President and a director since December 1993. Prior to that, Mr. Sutter had been the Co-Chief Executive Officer with Mr. Davids and a director of Radica HK since 1989, prior to which he had been the Chief Executive Officer since he founded the Company with Mr. Hansen in 1985. Mr. Sutter is responsible for the Company's sales and marketing, and shares responsibility with

Mr. Davids for the overall operation and strategic direction of the Company. He also participates actively in product development and the design, engineering and packaging of products. Mr. Sutter has over 20 years of sales and marketing experience, including over 10 years in international sales. Prior to founding the Company, Mr. Sutter was the General Manager for another company which previously sold the original souvenir slot machine banks sold by the Company.

Jon N. Bengtson has been the Executive Vice President, Chief Financial Officer and a director of the Company since January 1994 and was appointed President and Chief Executive Officer of Radica USA in December 1993. Mr. Bengtson joined The Sands Regent in 1984 and served in various positions, including Vice President of Finance and Administration, Chief Financial Officer, Treasurer and Director, Senior Vice President and Director and Executive Vice President and Director until December 1993. From 1980 to 1984, Mr. Bengtson was a director and served in various positions with IGT, including Treasurer and Vice President of Finance and Administration and Vice President of Marketing. Mr. Bengtson is currently a director of The Sands Regent and its subsidiary, Patrician, Inc.

David C.W. Howell has been Vice President and Chief Accounting Officer and a director of the Company since January 1994. From 1992 to 1994, Mr. Howell was a Finance Director and Company Secretary of Radica HK. From 1984 to 1991, Mr. Howell was a Chartered Accountant of the Institute of Chartered Accountants in England and Wales and is a member of the Hong Kong Society of Accountants.

Lam Siu Wing has been Vice President, Engineering and a director of the Company since January 1994. Prior to that, he had been the head of the Radica HK engineering department for eight years since he joined the Company in 1985. Mr. Lam has over 13 years of experience in plastic design and production engineering. Prior to joining the Company, he served as a project designer in the electrical appliance industry. Mr. Lam has a post graduate diploma in Engineering Management from City Polytechnic of Hong Kong.

John N. Hansen, formerly a director of the Company, had been a director of Radica HK since he founded Radica HK with Mr. Sutter in 1985. He was the owner and founder of John N. Hansen Company, Inc. and had over 40 years experience in distributing gifts and games in the United States.

Calvin A.J. Waller, has been a director of the Company since June 1994. Since July 1994, Mr. Waller has been a senior Vice President for ICF Kaiser Industries. He was President and Chief Executive Officer of RKK, Ltd. (an environmental technology company engaged in large scale containment of hazardous waste) from May 1993 to July 1994. From 1991 to 1993, Mr. Waller was Executive Vice President and Chief Operating Officer of RKK, Ltd. From 1989 to 1991, Mr. Waller was a Lieutenant General in the U.S. Army, during which time he acted as Commanding General of the I Corps (First U.S. Corps) and of Fort Lewis, Washington. Mr. Waller was Deputy Commander in Chief of Operations for Desert Storm and Desert Shield, under General Norman Schwarzkopf.

Robert Townsend, is best known as the author of "Up the Organization" and "Further Up the Organization". Mr. Townsend formerly held positions with Avis as its President and Chief Executive Officer and American Express as Senior Vice President of International Banking, Investment and Planning.

James O'Toole, is Vice President of the Aspen Institute where he heads the Executive Seminar and directs the Corporate Leaders Forum, a consortium of twenty corporations dedicated to preparing the next generation of their executives to lead change. Mr. O'Toole retired in 1994 from the faculty of the Graduate School of Business at the University of Southern California after a career of more than twenty years, where he held the University Associates' Chair of Management.

Raymond D. Pike, is Executive Vice President of Corporate Development for International Game Technology (IGT). Mr. Pike has held various executive positions with IGT since 1980. Mr. Pike previously was Deputy Attorney General and Chief of the Gaming Division for the State of Nevada.

ITEM 11. COMPENSATION OF OFFICERS AND DIRECTORS

Compensation

In fiscal 1994, the aggregate amount of compensation paid to all executive officers and directors as a group for services in all capacities was approximately \$840,972.

Each outside (i.e., non-employee and non-affiliated) director of the Company receives a \$10,000 annual fee payable in quarterly installments, a fee of \$600 for attendance at each meeting of the Board of Directors and a fee of \$600 for attendance at each Committee meeting. Directors who are employees or affiliates of the Company will not be paid any fees or additional remuneration for service as members of the Board of Directors or its Committees.

Each outside director received non-qualified stock options to purchase 30,000 shares of Common Stock of the Company upon initial election to the Board of Directors at an exercise price equal to the initial public offering price of the Company's Common Stock and exercisable after one year from the grant. Upon re-election to the Board of Directors, each outside director will receive non-qualified stock options to purchase 5,000 shares of Common Stock of the Company at an exercise price equal to the then current market price of the Company's Common Stock.

Employment Agreements

Messrs. Davids, Sutter and Bengtson have each entered into individual employment agreements with the Company. The employment Agreements are for periods of two years each from December 1993 for Mr. Bengtson and from April 1994 for Messrs. Davids and Sutter. Each Employment Agreement is terminable by the Company for cause. Messrs. Davids, Sutter and Bengtson shall each receive minimum annual base salaries of \$183,000, \$183,000 and \$175,000, respectively. The Employment Agreements also contain certain restrictions on the employees' involvement in businesses other than the Company during their course of employment and certain provisions applicable after termination of employment which prohibit the solicitation of customers and other employees of the Company, employment or engagement with competing entities, or the disclosure of proprietary information of the Company. The agreements for Messrs. Sutter and Davids also require that the Company provide each with a residence in Hong Kong.

ITEM 12. OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT OR SUBSIDIARIES

The Company's 1994 Stock Option Plan provides for the granting of stock options to directors, officers and employees of the Company. The Stock Option Plan is administered by the Compensation Committee of the Board of Directors. Subject to the provisions of the Stock Option Plan, the Compensation Committee shall have sole authority to determine which of the eligible directors and employees of the Company shall receive stock options, the terms, including applicable vesting periods, of such options, and the number of shares for which such options shall be granted.

The total number of shares of the Company's Common Stock that may be purchased pursuant to stock options under the Stock Option Plan shall not exceed in the aggregate 1.6 million shares. The option price per share with respect to each such option shall be determined by the Compensation Committee but shall be not less than 100% of the fair market value of the Company's Common Stock on the date such option is granted as determined by the Compensation Committee. The Stock Option Plan terminates in 2004 unless terminated earlier.

Additional information on outstanding stock options is contained in Note 12 of the Notes to Consolidated Financial Statements included in this filing.

ITEM 13. INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS

In February 1994, Messrs. Davids, Sutter and the Hansen Trust (the "Sellers") sold an aggregate of 11.2% (before giving effect to the IPO and the related Reorganization) of Common Stock to IGT for \$5,850,000 in cash and 374,436 shares of IGT common stock. The closing price of the IGT common stock on the New York Stock Exchange on January 12, 1994 (the date the agreement with IGT was executed), was \$33-1/8 per share.

Messrs. Davids and Sutter, the Hansen Trust, IGT and the Company are parties to a shareholders agreement (the "Shareholders Agreement") which provides for certain matters relating to the management of the Company and ownership of its Common Stock. The Shareholders Agreement provides that the Board of Directors will consist of 11 directors and that so long as each party other than the Company (each, a "Shareholder", and collectively the "Shareholders") owns at least 5% of the Company's outstanding Common Stock, each such Shareholder will be entitled to elect one Director at any meeting at which Directors are to be elected.

The Shareholders Agreement also provides that following the initial public offering, the Board of Directors shall include four independent directors, each of whom must be acceptable to the Shareholders, and three directors (each a "Company Director") nominated by the majority of the directors (other than the existing Company Directors) then in office. One of the Company Directors initially will be Mr. Bengtson. The Shareholders Agreement sets forth certain other matters relating to the election and removal of directors and provides that the director nominated by IGT will be a member of all committees of the Board of Directors.

In Addition to restrictions imposed by U.S. securities laws and Bermuda law, the Shareholders Agreement prohibits transfers of shares of Common Stock by the Shareholders, except (a) transfers to certain specified family members, in the case of individual Shareholders, and subsidiaries, in the case of IGT, (b) transfers in accordance with the right of first refusal provisions (as described below),

(c) transfers pursuant to Rule 144 under the Securities Act (so long as the transferee does not thereafter own 5% or more of the votes represented by the then outstanding Common Stock), (d) transfers made in connection with the exercise of any Shareholders' registration rights (as described below) and (e) transfers made in an initial public offering (so long as Messrs. Davids and Sutter each retains at least 21% of the outstanding Common Stock). In addition, Messrs. Davids and Sutter are not permitted to transfer any shares pursuant to clauses (b) or (c) above prior to February 16, 1996, without IGT's prior written consent.

The Shareholders Agreement provides that each of IGT and Messrs. Davids and Sutter has a right of first refusal on the Common Stock owned by the other two Shareholders entitling such Shareholder to purchase any shares of Common Stock that either of the other two proposes to transfer to a third party.

Pursuant to the Shareholders Agreement the Company has agreed, at anytime after February 16, 1996, and subject to certain specified conditions, to use its reasonable efforts to prepare and file one registration statement on behalf of each Shareholder (the "Demand Registration Rights") under the Securities Act, and to use its reasonable efforts to qualify the shares for offer and sale under any applicable U.S. state securities laws. The Shareholders Agreement also grants each Shareholder certain "piggyback" registration rights entitling each Shareholder, at any time after February 16, 1996 to sell Common Stock in any registered offerings of equity securities of the Company, for the account of the Company or on behalf of its security holders. These "piggyback" registration rights are exercisable by each Shareholder only twice.

In addition, each of Messrs. Davids and Sutter may exercise his Demand Registration Rights and "piggyback" registration rights only with respect to securities representing the number of shares he would otherwise be permitted to transfer in compliance with Rule 144 after February 16, 1996, minus the aggregate number of shares sold by him pursuant to Rule 144 or pursuant to the Demand Registration Rights or "piggyback" registration rights under the Shareholders Agreement, unless he obtains IGT's prior written consent.

The Shareholders Agreement provides that the foregoing restrictions on transfer, rights of first refusal and provisions relating to the election of directors will terminate on March 31, 2004.

Prior to the closing of the IPO, the Company purchased all of the outstanding common stock of Radica USA from Mr. Davids, Mr. Sutter and Mr. Hansen in exchange for 1,245,000 shares of the Common Stock. The Company also purchased all of the outstanding common stock of Disc from Mr. Davids for an amount equal to the net book value of its assets. Radica USA distributed to its stockholders all of its previously earned and undistributed taxable S Corporation earnings through the date of termination of its S Corporation status.

Prior to the IPO, the Company sold products to Radica USA on an arm's length basis and paid Radica USA \$50,000 per fiscal quarter (\$20,000 per fiscal quarter prior to October 31, 1993) to provide warranty services in North America for the Company's products. In addition, the Company paid Disc its expenditures, including capital expenditures, plus a fee equal to 4% of such expenditures, in return for certain design and engineering services provided by Disc to the Company.

The Company previously sold its products on an arm's length basis to John N. Hansen Company, Inc. and Rahn Sales Company, two U.S. distributors in which John N. Hansen had a controlling interest. The Company had also borrowed money from John N. Hansen Company, Inc. in fiscal years 1992 and 1993. See Note 5 of the Notes to Consolidated Financial Statements. No borrowings from Mr. Hansen had been outstanding since October 31, 1993.

ITEM 14. DESCRIPTION OF SECURITIES TO BE REGISTERED

Not Applicable

PART III

ITEM 15. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 16. CHANGES IN SECURITIES AND CHANGES IN SECURITY FOR REGISTERED SECURITIES

None

PART IV

ITEM 17. FINANCIAL STATEMENTS

Not Applicable

ITEM 18. FINANCIAL STATEMENTS

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ITEM 19. FINANCIAL STATEMENTS AND EXHIBITS

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(b) Exhibits

- * 3.1 Memorandum of Association
- * 3.2 Bye-Laws
- * 3.3 Certificate of Incorporation on Change of Name
- * 4.1 Specimen Certificate for the Shares of Common Stock
- * 10.1 Processing Agreement, dated December 4, 1991, between Radica HK and foreign Economic Development Co. of Humen Town, Dongguan, relating to the Tai Ping Factory
- * 10.2 Processing Agreement, dated December 27, 1993, between Radica HK and Foreign Economic Development Co. of Humen Town, Dongguan
- * 10.3 Original Product Manufacturing Agreement, dated January 12, 1994, among the Company and International Game Technology and the other parties named therein
- * 10.4 Shareholders Agreement, dated January 12, 1994, among the Company and the shareholders parties thereto
- * 10.5 Amendment to Shareholders Agreement, dated as of February 16, 1994, among the Company and the shareholders party thereto.
- * 10.6 Form of Employment Agreement, between Radica Games Limited and Robert E. Davids
- * 10.7 Form of Employment Agreement, between Radica Games Limited and James J. Sutter
- * 10.8 Employment Agreement, dated as of November 28, 1993, among Radica HK, Radica USA and Jon N. Bengtson
- * 10.8(a) Form of Amendment to Employment Agreement among Radica Games Limited, Radica HK, Radica USA and Jon N. Bengtson.
- * 10.9 1994 Stock Option Plan
- * 10.10 Share Purchase Agreement, dated as of January 12, 1994, among the sellers named therein, the Company and International Game Technology

- *10.11 Amendment to Share Purchase Agreement, dated as of February 16, 1994, among the Sellers named therein, the Company and International Game Technology
- *10.12 Stock Option Agreement, dated as of January 12, 1994, between the stockholders named therein and International Game Technology
- *10.13 Deed of Indemnity, dated February 16, 1994, between the covenantors named therein and the Company
- *10.14 Form of Common Stock Purchase Agreement, for Radica USA, between Radica Games Limited and the Sellers named therein
- *10.15 Form of Common Stock Purchase Agreement, for Disc, Inc., between Radica Games Limited and the Sellers named therein
- 10.16 Cooperative Joint Venture Contract of D.G. Radica Games Manufacturing Co., Ltd., dated June 24, 1994
- 11.1 Statement re Computation of Per Share Earnings
- 21.1 List of subsidiaries
- 23.1 Consent of Deloitte Touche Tohmatsu

* Incorporated by reference to Registration Statement on Form F-1, File No. 33-75794 filed by the Registrant.

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of Radica Games Limited

We have audited the accompanying consolidated balance sheets of Radica Games Limited and subsidiaries as of October 31, 1994 and 1993, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended October 31, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Radica Games Limited and subsidiaries as of October 31, 1994 and 1993, and the results of its operations and its cash flows for each of the three years in the period ended October 31, 1994, in conformity with accounting principles generally accepted in the United States of America.

Deloitte Touche Tohmatsu

HONG KONG
December 16, 1994

CONSOLIDATED BALANCE SHEETS
(US dollars in thousands, except share data)

	<u>At October 31,</u>	
	<u>1994</u>	<u>1993</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 11,038	\$ 4,698
Short-term investments (Note 3)	3,230	-
Accounts receivable, net of allowance for doubtful accounts of \$96 in 1994 and \$5 in 1993 and estimated customer returns of \$138 in 1994 and \$64 in 1993	25,977	5,586
Inventories (Note 4)	33,222	6,459
Prepaid expenses and other current assets	1,698	158
Receivables from related parties (Note 5)	-	2,175
Total current assets	75,165	19,076
Property, plant and equipment - net (Note 6)	11,731	2,582
Deferred income taxes (Note 7)	188	42
Other assets	242	126
Total assets	<u>\$ 87,326</u>	<u>\$ 21,826</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings (Note 8)	\$ 15,473	\$ 2,743
Current portion of long-term debt (Note 9)	127	76
Accounts payable	10,401	3,666
Note payable (Note 10)	3,000	-
Accrued payroll and employee benefits	355	144
Accrued expenses	3,926	757
Income taxes payable	2,150	1,020
Distributions payable to shareholders	-	3,025
Total current liabilities	35,432	11,431
Long-term debt (Note 9)	73	30
Shareholders' equity:		
Common stock, par value \$0.01 each, 100,000,000 shares authorized, 22,780,000 shares outstanding in 1994 (Note 11)	228	20
Additional paid-in capital	28,129	157
Retained earnings	23,443	10,167
Cumulative translation adjustment	21	21
Total shareholders' equity	51,821	10,365
Total liabilities and shareholders' equity	<u>\$ 87,326</u>	<u>\$ 21,826</u>

See accompanying notes to consolidated financial statements.

RADICA GAMES LIMITED

CONSOLIDATED STATEMENTS OF INCOME (US dollars in thousands, except per share data)

	Year ended October 31.		
	1994	1993	1992
Net sales			
Net sales to unaffiliated customers	\$ 69,757	\$ 25,050	\$ 8,434
Net sales to related parties	2,335	7,455	1,419
Total net sales	72,092	32,505	9,853
Cost of sales	37,823	16,085	5,334
Gross profit	34,269	16,420	4,519
Operating expenses			
Selling, general and administrative expenses	13,677	4,766	2,422
Research and development	1,577	652	158
Total operating expenses	15,254	5,418	2,580
Operating income	19,015	11,002	1,939
Interest income (expense), net	95	(65)	(41)
Income before income taxes	19,110	10,937	1,898
Income taxes (Note 7)	1,950	860	186
Net income	\$ 17,160	\$ 10,077	\$ 1,712
Earnings per common share	\$ 0.81	\$ 0.51	\$ 0.09
Weighted average number of shares outstanding	21,308,000	19,696,000	18,728,000

See accompanying notes to consolidated financial statements.

RADICA GAMES LIMITED

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (US dollars in thousands)

	<u>Common stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Cumulative</u>	<u>Total</u>
	<u>Number</u>	<u>Amount</u>	<u>paid-in</u>	<u>earnings</u>	<u>translation</u>	<u>share-</u>
	<u>of shares</u>		<u>capital</u>		<u>adjustment</u>	<u>holders'</u>
						<u>equity</u>
Balance at November 1, 1991	18,000	\$ 18	\$ -	\$ 1,442	\$ -	\$ 1,460
Issue of shares	1,245	1	14	-	-	15
Net income	-	-	-	1,712	-	1,712
Balance at October 31, 1992	19,245	19	14	3,154	-	3,187
Issue of shares	752	1	143	-	-	144
Net income	-	-	-	10,077	-	10,077
Translation adjustment	-	-	-	-	21	21
Dividends	-	-	-	(3,064)	-	(3,064)
Balance at October 31, 1993	19,997	20	157	10,167	21	10,365
Issue of shares:						
1,000-for-one common stock split						
(Note 13)	19,977,003	180	-	(180)	-	-
Public offering	2,783,000	28	27,796	-	-	27,824
Grant of stock option	-	-	176	-	-	176
Net income	-	-	-	17,160	-	17,160
Dividends	-	-	-	(3,704)	-	(3,704)
Balance at October 31, 1994	22,780,000	\$ 228	\$ 28,129	\$ 23,443	\$ 21	\$ 51,821

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(US dollars in thousands)

Year ended October 31.

	<u>1994</u>	<u>1993</u>	<u>1992</u>
Cash flow from operating activities:			
Net income	\$17,160	\$10,077	\$ 1,712
Adjustments to reconcile net income to net cash provided by operating activities:			
Deferred income taxes	(146)	(119)	-
Depreciation and amortization	839	374	301
Loss on disposal of property, plant and equipment	-	72	58
Provision for compensation expense related to stock options	176	-	-
Changes in assets and liabilities:			
Accounts receivable	(20,391)	(5,181)	(152)
Inventories	(26,763)	(4,614)	(1,516)
Prepaid expenses and other current assets	(1,540)	(67)	39
Receivables from related parties	2,175	(1,822)	(250)
Accounts payable	6,735	3,244	152
Accrued payroll and employee benefits	211	86	13
Accrued expenses	3,169	579	88
Income taxes payable	1,130	711	181
Net cash (used in) provided by operating activities	<u>(17,245)</u>	<u>3,340</u>	<u>626</u>
Cash flow from investing activities:			
Proceeds from sale of property, plant and equipment	-	26	1
Purchase of property, plant and equipment	(9,743)	(977)	(1,262)
Purchase of short-term investments	(3,230)	-	-
Increase in other assets	(167)	-	-
Net cash used in investing activities	<u>(13,140)</u>	<u>(951)</u>	<u>(1,261)</u>
Cash flow from financing activities:			
Note payable	3,000	-	-
Dividends paid	(6,729)	(39)	-
Issue of common stock, net	27,824	144	15
Increase in short-term borrowings	12,730	2,302	820
Repayments of short-term borrowings	-	(404)	-
Increase in long-term debt	-	-	641
Repayment of long-term debt	(100)	(792)	(18)
Net cash provided by financing activities	<u>36,725</u>	<u>1,211</u>	<u>1,458</u>
Effect of changes in exchange rates	-	14	-
Net increase in cash and cash equivalents	<u>6,340</u>	<u>3,614</u>	<u>823</u>
Cash and cash equivalents:			
Beginning of year	4,698	1,084	261
End of year	<u>\$11,038</u>	<u>\$ 4,698</u>	<u>\$ 1,084</u>

RADICA GAMES LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS - continued
(US dollars in thousands)

	<u>Year ended October 31.</u>		
	<u>1994</u>	<u>1993</u>	<u>1992</u>
Supplementary disclosures of cash flow information:			
Cash paid during the period for:			
Interest	\$ 256	\$117	\$ 59
Income taxes	966	197	2
Non cash transactions:			
Property, plant and equipment acquired under capital leases	194	215	56

See accompanying notes to consolidated financial statements.

RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (US dollars in thousands)

1. ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

On December 21, 1993 and on May 13, 1994, respectively, Radica Games Limited ("Radica Games"), a Bermuda company incorporated on December 21, 1993, became the holding company of Radica Limited ("Radica HK"), a company incorporated in Hong Kong and Radica Enterprises, Ltd. ("Radica USA"), a company incorporated in the United States of America, through the exchange of common stock of Radica Games for all the common shares of Radica HK and Radica USA (the "Reorganization"). Radica Games and its subsidiaries are collectively referred to as the Company.

Because Radica HK and Radica USA have been under common control since their formation, the financial statements have been prepared to reflect the financial position, results of operations and cash flows of the Company as if the structure of the Company resulting from the above transactions had been in existence, for all the periods presented, in a manner similar to the pooling-of-interests method.

All significant intra-group transactions and balances have been eliminated on consolidation.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and are presented in U.S. dollars as the Company's sales are predominantly denominated in U.S. dollars.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents - Cash and cash equivalents include cash on hand, cash accounts, interest-bearing savings accounts, and time certificates of deposit with a maturity at purchase date of three months or less.

Inventories - Inventories are stated at the lower of cost, determined by the weighted average method, or market.

Depreciation and amortization of property, plant and equipment - Depreciation is provided on the straight line method at rates based upon the estimated useful lives of the property, generally not more than seven years except for leasehold land and buildings which are 50 years, the term of the lease. Costs of leasehold improvements are amortized over the life of the related asset or the term of the lease, whichever is shorter. No depreciation and amortization is provided for construction-in-progress until it is put into use.

Revenue recognition - Revenues are recognized as sales when merchandise is shipped. The Company permits the return of damaged or defective products and accepts limited amounts of product returns in certain other instances. Accordingly, the Company provides allowances for the estimated amounts of these returns at the time of revenue recognition, based on historical experience adjusted for known trends.

RADICA GAMES LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (US dollars in thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Income taxes - Certain items are treated differently for financial reporting purposes than for income tax purposes. Pursuant to the provision of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," deferred income taxes are provided, under the liability method, in recognition of these temporary differences, using the tax rates expected to be in effect when the related temporary differences reverse.

Foreign currency translation - Assets and liabilities of foreign operations are translated using year-end exchange rates. Revenues and expenses of foreign operations are translated using average monthly exchange rates. The impact of exchange rate changes is shown as "Cumulative Translation Adjustment" in shareholders' equity. Net losses from foreign exchange transactions of \$470, \$129 and \$79 in 1994, 1993 and 1992 respectively, are included in selling, general and administrative expenses.

Post-retirement and post-employment benefits - The Company does not provide post-retirement benefits to employees and post-employment benefits are immaterial.

Warranty - Future warranty costs are provided for at the time of revenue recognition based on the management's estimate by reference to historical experience adjusted for known trends.

3. SHORT-TERM INVESTMENTS

At October 31, 1994, the Company had an investment in a pre-refunded tax-free municipal bond of \$3,000 which is scheduled to mature in August 1995.

4. INVENTORIES

Inventories by major categories are summarized as follows:

	October 31,	
	1994	1993
Raw materials	\$11,205	\$3,431
Work in progress	4,171	470
Finished goods	17,846	2,558
	<u>\$33,222</u>	<u>\$6,459</u>

RADICA GAMES LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (US dollars in thousands)

5. RELATED PARTY TRANSACTIONS

During the year, the Company sold products to John N. Hansen Company, Inc., and Rahn Sales Company, Inc. on the same terms as other customers. John N. Hansen, a shareholder of the Company, had a controlling interest in both of these companies. Since April 1994, the Company has not sold products to these companies.

Disc, Inc. ("Disc") provides design services to the Company, fees for such services being equal to the expenditures incurred by Disc plus 4%. Robert E. Davids, a shareholder of the Company, had a controlling interest in Disc which was acquired by the Company on May 20, 1994 for cash of \$111 which represented the fair value of net tangible assets acquired. Accordingly, all transactions subsequent to that date have been eliminated on consolidation.

The following table summarizes the transactions between the Company and the related companies:

	Year ended October 31.		
	1994	1993	1992
John N. Hansen Company, Inc.			
Sales to	\$2,257	\$7,189	\$ 999
Interest/banking commitment fee paid	-	70	146
Borrowings from	-	115	115
Repayment of a loan from	-	115	115
Rahn Sales Company, Inc.			
Sales to	78	266	420
Disc, Inc.			
Design fees paid	289	345	55

There were no balances with related companies at October 31, 1994. At October 31, 1993, the Company had receivables from John N. Hansen Company, Inc. and Disc, Inc. of \$2,152 and \$23, respectively.

RADICA GAMES LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(US dollars in thousands)

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	<u>October 31.</u>	
	<u>1994</u>	<u>1993</u>
Land and buildings	\$5,663	\$1,202
Plant and machinery	3,269	1,522
Furniture and equipment	1,872	527
Leasehold improvements	504	211
Construction-in-progress	2,091	-
Total	13,399	3,462
Less: Accumulated depreciation and amortization	(1,668)	(880)
Total	\$11,731	\$2,582

Additions, disposals and depreciation and amortization of property and equipment for each of the three years in the period ended October 31, 1994 are as follows:

	<u>Year ended October 31.</u>		
	<u>1994</u>	<u>1993</u>	<u>1992</u>
Additions	\$9,937	\$1,192	\$1,318
Disposals - net book value	-	98	59
Depreciation and amortization	788	325	252

Included in property and equipment are assets acquired under capital leases with the following net book values:

	<u>October 31.</u>	
	<u>1994</u>	<u>1993</u>
At cost:		
Plant and machinery	\$493	\$215
Less: Accumulated amortization	(87)	(27)
	\$406	\$188

Amortization of capital lease assets, which is included in depreciation and amortization expense in the accompanying statements of income, was \$60, \$27 and \$3 for the years ended October 31, 1994, 1993 and 1992, respectively.

RADICA GAMES LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (US dollars in thousands)

7. INCOME TAXES

The components of income before income taxes are as follows:

	Year ended October 31.		
	1994	1993	1992
United States	\$ 4,986	\$ 1,582	\$ 96
Foreign subsidiaries operating in:			
People's Republic of China	6,562	-	-
Hong Kong	7,562	9,355	1,802
	<u>\$19,110</u>	<u>\$10,937</u>	<u>\$1,898</u>

In accordance with the Hong Kong Inland Revenue Departmental Interpretation and Practice Note No. 21, since Radica HK income resulted from manufacturing operations carried out in the People's Republic of China ("PRC") under a processing arrangement, in providing for Hong Kong income tax, 50% of this income has been apportioned as not subject to Hong Kong income tax. During 1994, the Company's manufacturing operations were transferred to a wholly-owned subsidiary operating in the PRC.

Under the existing processing arrangement and in accordance with the current tax regulations in the PRC, the manufacturing income generated in the PRC is not subject to PRC taxes.

Income continuing to be generated from activities in Hong Kong is subject to Hong Kong income tax at the normal statutory rate.

The provision for income taxes consists of the following:

	Year ended October 31.		
	1994	1993	1992
Hong Kong			
Current	\$722	\$908	\$182
Deferred	113	(110)	-
	<u>835</u>	<u>789</u>	<u>182</u>
United States			
Federal income taxes	1,225	-	-
State income taxes	149	71	4
Deferred	(259)	-	-
	<u>\$1,950</u>	<u>\$860</u>	<u>\$186</u>

RADICA GAMES LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (US dollars in thousands)

7. INCOME TAXES - continued

Prior to its Reorganization in May 20, 1994, Radica USA, the Company's principal operating subsidiary in the United States, had elected to be treated as a S Corporation for U.S. Federal income tax purposes. As part of the reorganization the S Corporation Status of Radica USA was terminated and subsequently, its income has been subject to Federal income tax. Pro forma information of historic income adjusted to reflect a provision for U.S. Federal income taxes for Radica USA at the following effective rates is set out below:

Year ended October, 1994	34%
Year ended October, 1993	34%
Year ended October, 1992	21%

	Year ended October 31.		
	1994	1993	1992
Historical income before income taxes	\$19,110	\$10,937	\$1,898
Pro forma income taxes	2,633	1,374	205
	<u>\$16,477</u>	<u>\$9,563</u>	<u>\$1,693</u>

A reconciliation between the provision for income taxes computed by applying the statutory tax rates in the United States for 1994, 1993 and 1992 to income before taxes and the actual provision for income taxes is as follows:

	Year ended October 31.		
	1994	1993	1992
US statutory rate	<u>34%</u>	<u>34%</u>	<u>21%</u>
Provision for income taxes at statutory rate on income for the period	\$6,497	\$3,719	\$399
State income taxes	149	71	4
International rate differences	(1,323)	(1,544)	(63)
Income not subject to taxation	(3,589)	(1,356)	(178)
Other	216	(30)	24
	<u></u>	<u></u>	<u></u>
Income tax provision	<u>\$1,950</u>	<u>\$860</u>	<u>\$186</u>

RADICA GAMES LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (US dollars in thousands)

7. INCOME TAXES - continued

Deferred income taxes reflect the net tax effect of deductible temporary differences between the amounts of assets and liabilities for income tax purposes compared with the respective amounts for financial statement purposes. At October 31, 1994 and 1993 deferred income taxes comprised:

	<u>October 31.</u>	
	<u>1994</u>	<u>1993</u>
Deferred tax assets (liabilities):		
Excess of tax over financial reporting depreciation	\$(71)	\$(70)
Intercompany profit	-	112
Advertising allowances	130	-
Other, net	129	-
	<u>\$188</u>	<u>\$12</u>

Management believes that no valuation allowance against the net deferred tax asset is necessary.

8. SHORT-TERM BORROWINGS

These include borrowings in the form of trade acceptances, and overdrafts with various banks.

	<u>Year ended October 31.</u>		
	<u>1994</u>	<u>1993</u>	<u>1992</u>
Credit facilities available at end of year	\$23,484	\$5,394	\$2,282
Utilized at end of year	14,383	2,743	845
Weighted average interest rate on borrowings			
at end of year	10.1%	7.6%	7.6%

Interest rates are generally based on the banks' prime rates.

9. LONG-TERM DEBT

The long-term debt consists of capital lease obligations which at October 31, 1994 bore interest at 13.35% to 13.80% per annum. The amount payable in the next financial year is included in current liabilities.

Maturities of long-term debt as of October 31, 1994 are as follows:

Year ending October 31,	
1995	\$127
1996	73
Total	<u>\$200</u>

RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(US dollars in thousands)

10. NOTE PAYABLE

At October 31, 1994, the Company had a note payable for \$3,000 which matures on February 25, 1995 and accrues interest at 6.06% payable on maturity.

11. COMMON STOCK

The comparative figures represent the combined total of the nominal value of the issued common stock of Radica HK and Radica USA. The Board of Directors authorized a nine-for-one stock dividend and a subsequent 100-for-one stock split (together effectively a 1,000-for-one stock split) effective as of May 6, 1994. Earnings per common share data have been retroactively restated to give effect to these transactions.

12. STOCK OPTIONS

The Company's 1994 Stock Option Plan (the "Stock Option Plan") provides for options to be granted for the purchase of an aggregate of 1,600,000 shares of common stock at per share prices not less than 100% of the fair market value at the date of grant as determined by the Compensation Committee of the Board of Directors. Options under this plan are generally exercisable ratably over five years from the date of grant unless otherwise provided.

In December 1993, an officer was granted an option under his employment agreement to purchase 188,000 shares of common stock of Radica Games at an exercise price of \$0.567 per share and 1,136,000 options were granted during fiscal 1994 under the Stock Option Plan to purchase Company's shares at exercise prices ranging from \$8.50 to \$8.53 per share. Twenty percent of the stock options vest and become exercisable on each of the first five anniversaries of the date of grant and all of the options expire in ten years. At the balance sheet date, all options granted were outstanding.

13. OFF-BALANCE-SHEET RISK AND CONCENTRATIONS OF CREDIT RISK AND MAJOR CUSTOMERS

Trade receivables of the Company are subject to a concentration of credit risk with customers in the retail sector. This risk is limited due to the large number of customers composing the Company's customer base and their geographic dispersion, though the Company has two customers which accounted for more than twelve and fourteen percent of net sales in 1994 and had a customer which accounted for more than thirteen percent of net sales in 1993. In 1992 the Company's two largest customers accounted for more than eleven and twenty-one percent of net sales. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers. In addition, approximately 30% of the trade receivable balance as of October 31, 1994, is covered by letters of credit.

RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (US dollars in thousands)

14. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of the Statement of financial Accounting Standards No. 107, "Disclosures about Fair Value of Financial Instruments." The estimated fair value amounts have been determined by the Company, using available market information and appropriate valuation methodologies. The estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

The carrying amounts of cash and short-term investment, accounts receivable, accounts payable and note payable are reasonable estimates of their fair value.

At October 31, 1994, the Company has letters of credit outstanding totalling \$13,352 which guarantee various trade activities. The contract amount of the letters of credit is a reasonable estimate of the fair value since the value for each is fixed over the life of the commitment.

15. COMMITMENTS AND CONTINGENCIES

The Company leases premises under various operating leases, many of which contain renewal options. Rental expense under operating leases was \$214, \$216 and \$249 in 1994, 1993 and 1992, respectively.

At October 31, 1994, the Company was obligated under capital leases and operating leases requiring minimum rentals as follows:

	<u>Capital leases</u>	<u>Operating leases</u>
1995	\$167	\$320
1996	83	167
1997	-	152
1998	-	98
Total minimum lease payments	\$250	\$737
Less: amount representing interest	50	
Present value of minimum lease payments	\$200	

At October 31, 1994, certain leasehold land and buildings with a net book value of \$3,812 and bank balances of \$9,419 were pledged to secure general banking facilities including overdraft and trade facilities granted to the Company. The note payable was collateralized by the short-term investment of \$3,000.

At October 31, 1994, the Company has commitments to expend approximately \$2,000 to complete construction-in-progress in the PRC which is expected to be disbursed during the year ending October 31, 1995.

RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (US dollars in thousands)

16. RETIREMENT PLAN

In 1993, the Company established a defined contribution retirement plan covering substantially all employees in Hong Kong. Under this plan, eligible employees may contribute amounts through payroll deductions which are not more than 5% of individual salary, supplemented by employer contributions ranging from 5% to 10% of individual salary depending on the years of service. The expense related to this plan was \$49 and \$40 for 1994 and 1993, respectively.

17. SEGMENT INFORMATION

The Company operates in one principal industry segment: the design, development, manufacturing and distribution of a variety of non-gambling casino theme games. Over 90% of the Company's products are sold in the United States. Geographic financial information is as follows:

	<u>1994</u>	<u>1993</u>	<u>1992</u>
Net sales:			
United States	\$ 62,507	\$ 12,140	\$ 935
PRC and Hong Kong	9,585	20,365	8,918
	<u>\$ 72,092</u>	<u>\$ 32,505</u>	<u>\$ 9,853</u>
Operating income:			
United States	\$ 5,005	\$ 1,582	\$ 96
PRC and Hong Kong	14,010	9,420	1,843
	<u>\$ 19,015</u>	<u>\$ 11,002</u>	<u>\$ 1,939</u>
Identifiable assets:			
United States	\$ 35,021	\$ 6,407	\$ 236
PRC and Hong Kong	52,305	15,419	5,519
	<u>\$ 87,326</u>	<u>\$ 21,826</u>	<u>\$ 5,755</u>

A significant portion of PRC and Hong Kong net sales are export sales to the United States.

RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - (Continued) (US dollars in thousands)

18. LITIGATION

Ten purported class actions filed in various United States District Courts against the Company, various of its officers and directors, and the managing underwriters of the Company's initial public offering have been consolidated in the United States District Court for the District of Nevada under the caption In re Radica Games Limited Securities Litigation, Master File No. CV-S-94-00653-PMP (LRL). Plaintiffs filed a consolidated complaint on November 4, 1994 that superseded all the complaints in the individual actions.

The named plaintiffs seek to represent a class consisting of purchasers of the Company's common stock in the initial public offering or in the open market from May 13 through July 22, 1994. The plaintiffs seek unquantified monetary damages and other relief against the defendants for alleged violations of Sections 11, 12(2), and 15 of the Securities Act of 1933, Sections 10b (and Rule 10b-5 thereunder), 20(a), and 20A(a) of the Securities Exchange Act of 1934, Sections 90.570, 90.660 and 660.4 of the Nevada Revised Statutes, and the common law of Nevada relating to the Company's registration statement and other public disclosures.

The Company believes the plaintiffs allegations are without merit and intends to defend these lawsuits vigorously.

19. SUBSEQUENT EVENTS

In November 1994, the Company obtained a credit facility for \$6,000 which expires on May 10, 1995. Interest on this facility will accrue at prime rate based upon the outstanding balance during each month. The credit facility is collateralized by (a) all accounts, documents, instruments, chattel paper and general intangibles and (b) all inventory whether now owned or hereafter acquired and all accessories thereto and all products and proceeds thereof.

20. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	Quarter ended			
	Jan. 31	April 30	July 31	Oct. 31
<u>Fiscal 1994</u>				
Net sales	\$12,357	\$11,324	\$14,669	\$33,742
Gross profit	6,695	5,803	7,834	13,938
Net income	3,775	2,695	2,455	8,237
Net income per share			0.11	0.36
Pro forma net income	3,434	2,353		

RADICA GAMES LIMITED

20. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED) - continued

	Quarter ended			
	<u>Jan. 31</u>	<u>April 30</u>	<u>July 31</u>	<u>Oct. 31</u>
<u>Fiscal 1993</u>				
Net sales	\$1,397	\$4,069	\$9,534	\$17,505
Gross profit	680	2,111	4,496	9,133
Net income	(146)	926	3,023	6,274
Net income per share				
Pro forma net income	(150)	912	2,937	5,893

Common Share Price

1994 Quarter

	High	Low
Fourth	\$ 7	\$ 4 3/4
Third	11 1/2	4 5/8

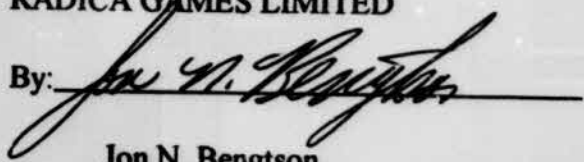
Prior to the Company's initial public offering of Common Shares, which commenced on May 13, 1994, there was no public market for the Company's Ordinary shares. The initial offering price was \$11. On October 31, 1994, the closing price was \$5 11/16.

POWER OF ATTORNEY

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 23rd day of January, 1995.

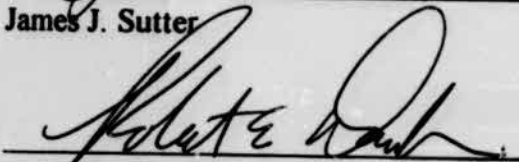
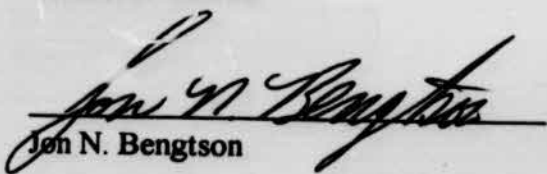
RADICA GAMES LIMITED

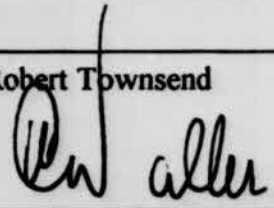
By: 

Jon N. Bengtson
Director, Executive Vice President
and Chief Financial Officer

Each person whose signature appears below hereby authorizes Robert E. Davids and Jon N. Bengtson, or either of them, as attorneys-in-fact to sign on his behalf, individually, and in each capacity stated below, and to file all amendments and/or supplements to this Annual Report on Form 20-F.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
 James J. Sutter	Chairman, Board of Directors and Executive Vice President	January 18, 1995
 Robert E. Davids	Director, President and Chief Executive Officer	January 18, 1995
 Jon N. Bengtson	Director, Executive Vice President and Chief Financial Officer	January 23, 1995
_____ David C. W. Howell	Director, Vice President and Chief Accounting Officer	

SIGNATURES	TITLE	DATE
 _____ Lam Sui Wing	Director, Vice President	
_____ Raymond D. Pike	Director	
_____ Robert Townsend	Director	
 _____ Calvin A. H. Waller	Director	
_____ James O'Toole	Director	

POWER OF ATTORNEY

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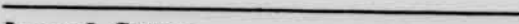
RADICA GAMES LIMITED

By: 

Jon N. Bengtson
Director, Executive Vice President
and Chief Financial Officer

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 Robert E. Davids	Director, President and Chief Executive Officer	
 Jon N. Bengtson	Director, Executive Vice President and Chief Financial Officer	
 David C. W. Howell	Director, Vice President and Chief Accounting Officer	January 24, 1995

SIGNATURES**TITLE****DATE**

Lam Sui Wing

Director, Vice President

Raymond D. Pike

Director

Robert Townsend

Director

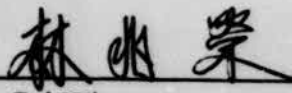
Calvin A. H. Waller

Director

James O'Toole

Director

SIGNATURES**TITLE****DATE**



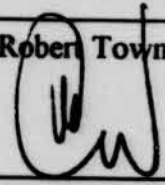
Lam Sui Wing

Director, Vice President

January 12, 1995

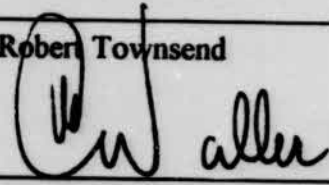
Raymond D. Pike

Director



Robert Townsend

Director



Calvin A. H. Waller

Director

January 24, 1995

James O'Toole

Director

RADICA GAMES LTD

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SIC 5090

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SEC # 0-23696

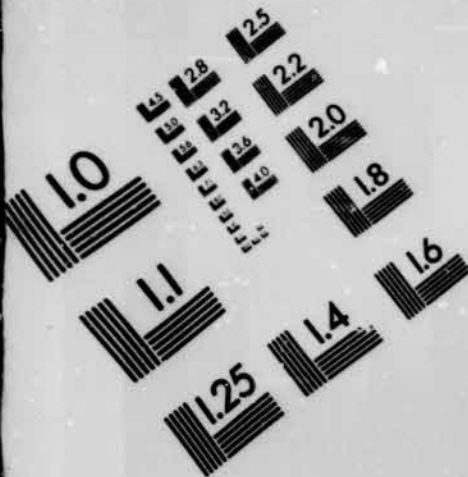
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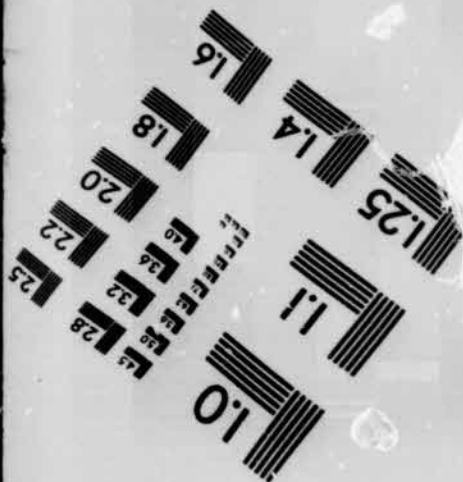
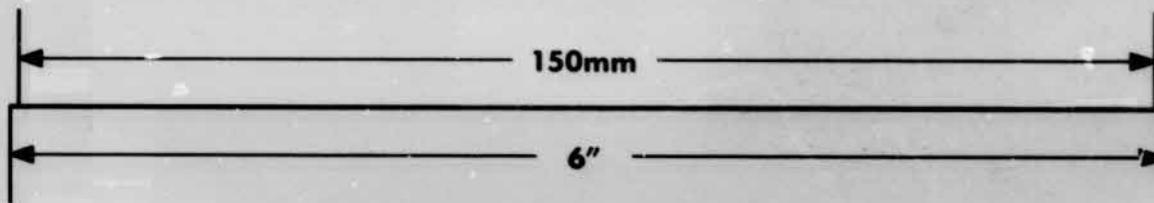
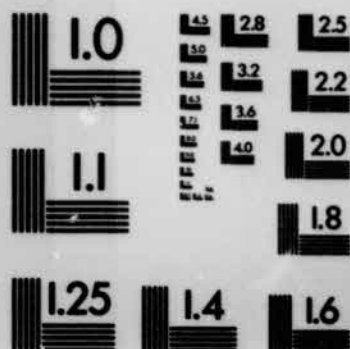
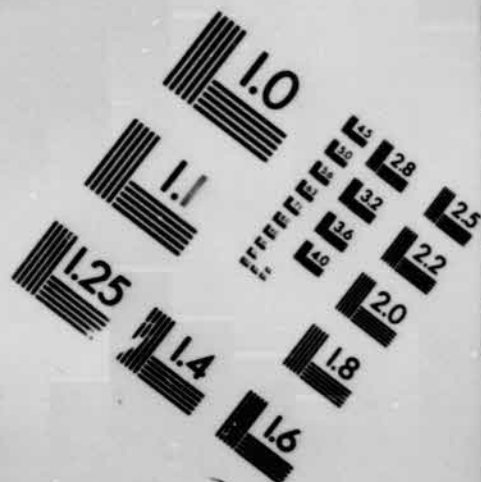
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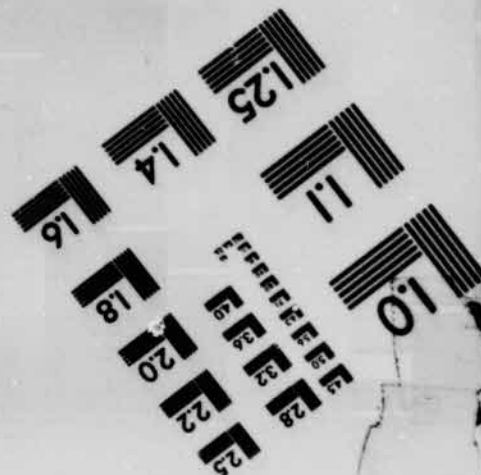
IMAGE EVALUATION
TEST TARGET (MT-3)



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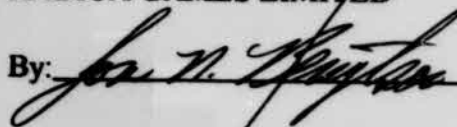


POWER OF ATTORNEY

SIGNATURES

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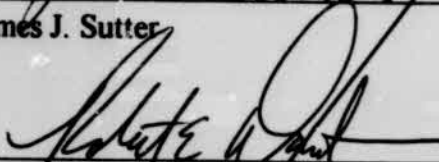
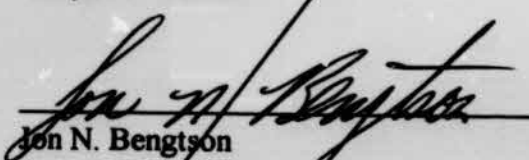
RADICA GAMES LIMITED

By: 

Jon N. Bengtson
Director, Executive Vice President
and Chief Financial Officer

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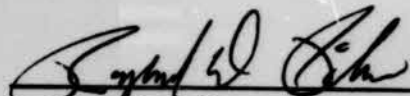
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SIGNATURE	TITLE	DATE
 James J. Sutter	Chairman, Board of Directors and Executive Vice President	
 Robert E. Davids	Director, President and Chief Executive Officer	
 Jon N. Bengtson	Director, Executive Vice President and Chief Financial Officer	
 David C. W. Howell	Director, Vice President and Chief Accounting Officer	

SIGNATURES**TITLE****DATE**

Lam Sui Wing

Director, Vice President


Raymond D. Pike

Director

January 27, 1995

Robert Townsend

Director

Calvin A. H. Waller

Director

James O'Toole

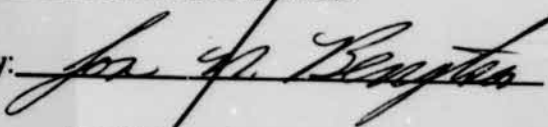
Director

POWER OF ATTORNEY

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 23rd day of January, 1995.

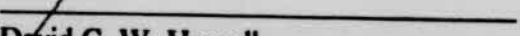
RADICA GAMES LIMITED

By: 

Jon N. Bengtson
Director, Executive Vice President
and Chief Financial Officer

Each person whose signature appears below hereby authorizes Robert E. Davids and Jon N. Bengtson, or either of them, as attorneys-in-fact to sign on his behalf, individually, and in each capacity stated below, and to file all amendments and/or supplements to this Annual Report on Form 20-F.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
 James J. Sutter	Chairman, Board of Directors and Executive Vice President	
 Robert E. Davids	Director, President and Chief Executive Officer	
 Jon N. Bengtson	Director, Executive Vice President and Chief Financial Officer	
 David C. W. Howell	Director, Vice President and Chief Accounting Officer	

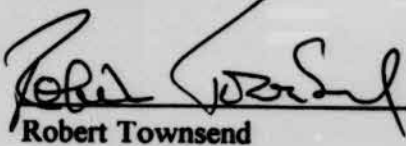
SIGNATURES**TITLE****DATE**

Lam Sui Wing

Director, Vice President

Raymond D. Pike

Director



Robert Townsend

Director

January 27, 1995

Calvin A. H. Waller

Director

James O'Toole

Director

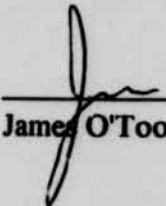
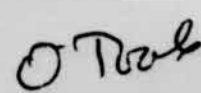
SIGNATURES	TITLE	DATE
_____ Lam Sui Wing	Director, Vice President	
_____ Raymond D. Pike	Director	
_____ Robert Townsend	Director	
_____ Calvin A. H. Waller	Director	
  _____ James O'Toole	Director	27 Jan 1995

EXHIBIT INDEX

- * 3.1 Memorandum of Association
- * 3.2 Bye-Laws
- * 3.3 Certificate of Incorporation on Change of Name
- * 4.1 Specimen Certificate for the Shares of Common Stock
- * 10.1 Processing Agreement, dated December 4, 1991, between Radica HK and foreign Economic Development Co. of Humen Town, Dongguan, relating to the Tai Ping Factory
- * 10.2 Processing Agreement, dated December 27, 1993, between Radica HK and Foreign Economic Development Co. of Humen Town, Dongguan
- * 10.3 Original Product Manufacturing Agreement, dated January 12, 1994, among the Company and International Game Technology and the other parties named therein
- * 10.4 Shareholders Agreement, dated January 12, 1994, among the Company and the shareholders parties thereto
- * 10.5 Amendment to Shareholders Agreement, dated as of February 16, 1994, among the Company and the shareholders party thereto.
- * 10.6 Form of Employment Agreement, between Radica Games Limited and Robert E. Davids
- * 10.7 Form of Employment Agreement, between Radica Games Limited and James J. Sutter
- * 10.8 Employment Agreement, dated as of November 28, 1993, among Radica HK, Radica USA and Jon N. Bengtson
- * 10.8(a) Form of Amendment to Employment Agreement among Radica Games Limited, Radica HK, Radica USA and Jon N. Bengtson.
- * 10.9 1994 Stock Option Plan
- * 10.10 Share Purchase Agreement, dated as of January 12, 1994, among the sellers named therein, the Company and International Game Technology
- * 10.11 Amendment to Share Purchase Agreement, dated as of February 16, 1994, among the Sellers named therein, the Company and International Game Technology
- * 10.12 Stock Option Agreement, dated as of January 12, 1994, between the stockholders named therein and International Game Technology
- * 10.13 Deed of Indemnity, dated February 16, 1994, between the covenantors named therein and the Company
- * 10.14 Form of Common Stock Purchase Agreement, for Radica USA, between Radica Games Limited and the Sellers named therein

*10.15 Form of Common Stock Purchase Agreement, for Disc, Inc., between Radica Games Limited and the Sellers named therein

10.16 Cooperative Joint Venture Contract of D.G. Radica Games Manufacturing Co., Ltd., dated June 24, 1994

11.1 Statement re Computation of Per Share Earnings

21.1 List of subsidiaries

23.1 Consent of Deloitte Touche Tohmatsu

ps. 63

ps. 107

ps. 109

ps. 110

* Incorporated by reference to Registration Statement on Form F-1, File No. 33-75794 filed by the Registrant.

disclosure®
Information Services, Inc.

**5161 River Road
BETHESDA MD 20816
Tel - 301-951-1300**

**EXHIBITS
FOLLOW**

**COOPERATIVE JOINT VENTURE CONTRACT OF
D.C. RADICA GAMES MANUFACTURING CO. LTD.**

For the purpose of developing mutual economic cooperations, Hu Men Longyuan Township Enterprise Development Company of Dongguan City (hereinafter referred to as Party A) and Radica China Company Limited, a British Virgin Islands Company (hereinafter referred to as Party B), adhering to the principle of equality and mutual benefit and through friendly consultations, and with a view to cooperative management of the games manufacturing business, agree to enter this contract (this "Contract") with the terms as set forth below on this 24th Day of June 1994 in Dongguan City.

Chapter One General Principles

Article 1. Party A, Hu Men Dongguan Township Enterprise Development Company of Dongguan City is duly registered with the Administrative Bureau of Industry and Commerce of Dongguan City, with its legal address at Hu Men Town Longyuan Management Area of Dongguan City, Guangdong Province of the People's Republic of China (the "PRC").

Legal Representative: Name: Zhang Runsheng
Position: Manager
Nationality: Chinese

Article 2. Party B, Radica China Company Limited is duly registered at British Virgin Islands, with its legal address at Omar Hodge Building, Wickhams Cay 1, P.O. Box 362, Road Town, Tortola, British Virgin Islands, and its correspondence address at Suite R, 6/F., 2-12 Au Pui Wan Street, Fo Tan, Shatin, N.T., Hong Kong.

Legal Representative: Name: David C.W. Howell
Position: Finance Director
Nationality: British

Article 3. Party A and Party B (the "Parties" or "Both Parties") agree to establish at Hu Men Town Longyuan Management Area of Dongguan City, Guangdong Province a cooperative joint venture with the Chinese name 东莞市东城镇虎门镇龙源管理区东联利达游戏制造有限公司 and English name "Dongguan Radica Games Manufacturing Co., Ltd." (the "Company"). The cooperative business scope of the Cooperative Joint Venture is to manufacture and to sell games products.

Article 4. Both Parties agree that the term of the Company shall be thirty (30) years commencing from the date of issuance of the Company's business

licence.

Article 5. The Company shall be a Chinese legal person. All activities of the Company shall be governed by the laws, rules and relevant regulations of the PRC.

Chapter Two Cooperative Conditions and Profit Allocation

Article 6. Party A shall provide twenty thousand (20,000) square metres of land for Party B's use. Party B shall pay to Party A four million Renminbi (RMB4,000,000.00) for the use of land as provided by Party A.

Article 7. Party B shall invest five million U.S. Dollars (US\$5,000,000.00) without any interests thereon, one million and nine hundred thousand U.S. Dollars (US\$1,900,000.00) of which shall go to equipment capital, seven hundred and fifty thousand U.S. Dollars (US\$750,000.00) of which shall go to working capital, and two million three hundred and fifty thousand U.S. Dollars (US\$2,350,000.00) of which shall go to the fees for premises and civil constructions.

Article 8. The total amount of the investment of the Company shall be five million U.S. Dollars (US\$5,000,000.00). The registered capital of the Company shall be five million U.S. Dollars (US\$5,000,000.00).

Article 9. The Company shall, after the investment as contributed by Party B has been verified by a Chinese registered accountant, provide a certificate of verification to Party B. The capitals contributed by Party B for the acquisition of equipment, the factory buildings and civil construction may effect a withdrawal of annual depreciation subject to the approval from a relevant governmental financial and taxation department of the PRC and may be returned to Party B by the Company prior to the allocation of profits.

Article 10. Party B shall be responsible for operation and management of the Company. Should the Company incur any losses, Party A shall not bear any economic liabilities. In any event, Party B shall guarantee an annual payment to Party A of eight hundred thousand Renminbi (RMB800,000.00), which shall be increased consecutively by twenty percent (20%) every three years commencing from the fourth year. The Company shall, after the payment of income tax separately by each of the Parties, withdraw the "three funds" pursuant to

the state and local stipulations of the PRC.

Article 11.

All Party B's income (including the profits and the withdrawal of the investment by the means of depreciation and amortisation) as obtained pursuant to the stipulations of this Contract shall, after deductions of the related taxes payable to the government of the PRC, be fully remitted to Party B as it may be necessary through the Bank of China Dongguan Branch into the bank account as designated by Party B in accordance with Provisional Regulations for Exchange Control of the People's Republic of China. At the expiration of the cooperative term, all of fixed assets of the Company shall be transferred to Party A without further fixing the prices therefor. In the case the Party B has not recovered its contribution prior and close to the expiration of this contract, the cooperation term may be extended based on the negotiation and agreement made by the Parties, subject to the prior approval of the original examination and approval authorities.

Chapter Three Production and Sales

Article 12.

The Company shall engage in games production, with the annual capacity of producing approximately twenty-two million (22,000,000) units of the games. The products as produced thereby shall be sold on the markets both within and outside the PRC, with twenty percent (20%) of domestic sales and eighty percent (80%) of overseas sales. The Company shall be responsible for such sales the aforementioned. The domestic sales shall comply with the relevant stipulations of the government of the PRC. All products shall be sold on exclusive consignment at a fixed price. The principle of price fixing shall be ex factory price based on production costs plus reasonable amount of profits, and shall be discussed by the board of directors semi-annually for the purpose of proper adjustment of the selling price. The Company may, according to the development of production in the Company and to the demands of the markets, and subject to approval by the original examination and approval authority, increase its annual production output correspondingly.

Article 13.

In purchases of equipment, raw materials, components and parts, etc., the Company shall give the first priority to the purchases within the PRC under the same purchase condition and shall, in case imports are required, organize

such importation or entrust Party B to conduct such purchase abroad subject to the mutual agreement on the prices.

Article 14.

In the event that the Company entrusts Party B to purchase imported equipments, Party B shall send personnel to show how to fix and install such equipments with a view to procuring the products as produced by the Company to meet the quality requirements.

Chapter Four Responsibilities of the Parties

Article 15.

Both Parties shall, upon the approval for the establishment of the Company, be responsible for the following matters (including the preparatory construction phases):

Party A shall be responsible for:

- (1) applying to the relevant departments in the PRC for approval, registration, business licence and other matters concerning the establishment of the Company;
- (2) assisting the Company in recruiting management personnel, technical personnel and workers;
- (3) assisting the Company in purchasing on the markets within the PRC of fuel and oil materials for the production purpose and in liaising for and putting into place basic facilities for such things as water supply and electricity supply; and
- (4) handling other matters entrusted by the Company.

Party B shall be responsible for:

- (1) making its capital contribution in the schedule and in the manner as stipulated by this Contract;
- (2) purchasing, as entrusted by the Company, on the markets outside the PRC, all equipments, parts, components and subassemblies, and packing materials necessary for the production;
- (3) arranging for the training of technical personnel and workers of the Company;
- (4) providing directions in respect of

- installing, testing and trial production;
- (5) providing production techniques to ensure that the quality of the products meet all the requirements;
 - (6) introducing information relating to trends on overseas markets and advanced management and techniques;
 - (7) organizing the design and construction of the premises of the Company;
 - (8) assisting the Company in selling its products on overseas markets; and
 - (9) handling other matters as entrusted by the Company.

Chapter Five Management Office of the Company

Article 16. The Company shall form a board of directors (the "Board of Directors") as to be composed of directors appointed by Party A and Party B. The Board of Directors shall be the highest authority of the Company and shall consist of seven (7) directors ("Directors"), of which two shall be appointed by Party A and five (5) of which shall be appointed by Party B. One chairman (the "Chairman") of the Board of Directors shall be appointed by Party B and one vice chairman (the "Vice Chairman") of the Board of Directors shall be appointed by Party A. The term of office for the Chairman, the Vice Chairman and the Directors shall be four (4) years and may be renewable if reappointed by each appointing party and shall be deemed to be renewed in the absence of reappointment at the expiration of the office term. The authorities and powers of the Board of Directors shall be set forth in detail in the attached articles of association (the "Articles of Association") of the Company.

Article 17. The office of one general manager (the "General Manager") and one deputy general manager (the "Deputy General Manager") shall be invited by the Board of Directors. The responsibility of the General Manager and the Deputy General Manager is to carry out the decisions of the Board of Directors. The authorities and powers of the General Manager and the Deputy General Manager shall be stipulated in the Articles of Association. The General Manager serving for the first term of office shall be appointed by Party B and the Deputy General Manager serving for the

first term of office shall be appointed by Party A. In the case of graft or serious dereliction of duty on the part of the General Manager and the Deputy General Manager, the Board of Directors shall have the power to dismiss them at any time.

Chapter Six Salaries and Welfare

- Article 18. The standards of salaries, position allowances and bonuses, etc. of the management personnel of the Company shall, in accordance with the relevant stipulations of the government of the PRC and with reference to the existing practice of other joint venture companies, and in accordance with actual price standard of the goods in Dongguan City, be determined by the Board of Directors through consultations, and shall be increased annually by a reasonable margin.

Chapter Seven Finance, Accounting and Foreign Exchange Control

- Article 19. The Company is an economic enterprise, effecting an independent finance and accounting system. Its accounting system shall comply with the relevant stipulations of the financial and taxation department of the PRC and shall adopt Renminbi as the standard accounting currency.
- Article 20. The fiscal year of the Company shall commence on November 1 and end on October 31 of each calendar year. All vouchers, account books, statistic statements and reports of the Company shall be kept both in Chinese language and English language. Prior to the commencement of production, the Company shall invite a Chinese registered accountant to verify the capital contributions and shall subsequently provide to each Party hereto a verification certificate.
- Article 21. Financial auditing and examination of the Company shall be carried out by an accountant registered in the PRC and reports thereon shall be submitted to the Board of Directors and the General Manager. In case Party B considers it necessary to employ a foreign auditor registered in other country or areas to undertake annual financial auditing and examination, Party A shall give its consent. All expenses thereof shall be borne by Party B.
- Article 22. In the first three months of each fiscal year, the General Manager shall organize to prepare previous year's balance sheet, profit and loss

accounts and profit allocation plan and submit them to the Board of Directors for examination and approval.

Article 23. The Company's expenses on all equipments and raw materials are valid only after official invoices and receipts have been obtained thereto. The invoices and receipts from abroad or Hong Kong and Macau areas must be attached with declaration forms and tariff rates of the customs of the PRC.

Article 24. The Company may apply to the Bank of China Dongguan Branch for opening accounts both in Raminbi and in foreign currency. All incomes and expenses of the Company shall be handled and supervised by the bank the aforesaid. All incomes as obtained by Party B pursuant to this Contract shall be remitted, as the case may be, through the above mentioned bank with which the accounts of the Company have been opened.

Article 25. Transactions of the Company shall, during the ordinary course of business, be recorded separately in Raminbi and foreign currency. The conversion of Raminbi into other currency shall be in accordance with the exchange rate of the first converting day of each month published by the State Administration of Exchange Control.

Article 26. The salaries and other lawful income earned by foreign technical personnel and senior staff of the Company as appointed and recruited by Party B shall, after deduction of living expenses incurred within the PRC, be remitted outside the PRC in accordance with relevant foreign exchange control regulations of the PRC.

Chapter Eight Registration, Taxation and Insurance

Article 27. The Company shall process the registration with, and apply for business license before the administrative department of industry and commerce of the PRC, and shall register with the local taxation department for tax matters. The Company shall pay taxes in accordance with the relevant tax law and regulation of the government of the PRC.

Article 28. All insurances of the Company shall be affected with Dongguan Insurance Branch Company of the People's Insurance Company of China.

Chapter Nine Customs of Imported Goods

Article 29. Both importation of the equipments, raw materials

and packing materials of the Company and exportation of the products as produced shall be effected through Taiping and Wanjin Customs.

Chapter Ten Obligation of Performing this Contract

Article 30. The capital contribution as subscribed by Party B shall be made in full within six (6) months commencing from the date on which the business licence of the Company is issued. Failure of making such contribution in the manner and in accordance with the time schedule as set forth herein and lack of sufficient or practical reasons shall be deemed as a breach and an automatic termination of this Contract. In case there exist some sufficient and practical reasons, the application for deferral of such contribution shall be limited only to one month. Failure of the contribution after such deferral period shall be deemed a breach and an automatic termination of the Company. Upon the occurrence of the breach the aforementioned, the other party shall be entitled to apply unilaterally for termination of the Company and to claim damages from the breaching party.

Article 31. Both Parties shall, upon the approval of this Contract by the pertinent governmental agency of the PRC, fully comply with this Contract. No Party hereto shall terminate this Contract at its own discretion. Any Party hereto demanding a termination prior to the expiration under special conditions shall so make such demand, commence the processing of termination after an agreement by both Parties has been obtained, and submit to the original examination and approval authority for approval. Should termination by one Party hereto at its own discretion or failure of one Party hereto to comply with this Contract cause the losses to other Party, the breaching party shall be liable for payment of damages to the other party incurring the economic losses arising out of such breaching activities.

Chapter Eleven Force Majeure

Article 32. Should either of the Parties hereto be prevented from executing this Contract by force majeure, such as earthquake, typhoon, fire and war and other unforeseen events, and their happening and consequences cannot be prevented and are unavoidable, the prevented party shall notify the other party through the fastest means of telecommunication without any delay, and within

fifteen (15) days thereafter provide the detailed information of the events and valid document for evidence (document issued by the relevant public notary) for explaining the reason of its inability to execute or delay the execution of all or part of this Contract. Both Parties shall, through consultations, decide whether to terminate the contract or to exempt the part of obligations for implementation of this Contract or whether to delay the execution of this Contract according to the effects of the events on the performance of this Contract.

Chapter Twelve Product Trademark

Article 33. The trademark of the Company for the products sold both domestically and abroad shall be decided through mutual consultations, but must comply with the principles of the relevant selling countries (areas) in relation to application and registration requirements.

Chapter Thirteen Arbitration

Article 34. Any disputes arising out of the execution of, or in connection with this Contract during the term of this Contract shall be settled based upon the spirit of friendly cooperation and through friendly consultations. In case no settlement can be reached through consultations, the disputes shall be submitted to the China International Economic and Trade Arbitration Commission for arbitration in accordance with its rules of procedure. The arbitral award is final and binding upon both Parties.

Chapter Fourteen Miscellaneous

Article 35. This Contract shall, after the signing by both Parties, come into force from the date of approval by the relevant governmental authority of the PRC.

Article 36. In case some matters are not included in this Contract, corrections or amendments may be made through mutual consultations and shall be submitted to the original examination and approval authority for approval and be attached as appendices hereto.

IN WITNESS WHEREOF both Parties hereto have caused this Contract to be executed by each of their duly authorized representative on this 24th day of June 1994 at Dongguan City, Guangdong

Province of the PRC.

Party A:

Hu Men Longyuan Township Enterprise Development Company of Dongguan City

Legal address: Hu Men Town Longyuan Management Area of Dongguan City

Telephone Number: 551178

Legal Representative: Zhang Runsheng
(Signature)

Party B:

Radica China Company Limited (British Virgin Islands Company)

Legal Address: Omar Hodge Building, Wickhams Cay 1, P.O. Box 362, Road Town, Tortola, British Virgin Islands

Telephone Number: (852) 6932238

Legal Representative: David C. W. Howell
(Signature)

**ARTICLES OF ASSOCIATION FOR DONGGUAN RADICA GAMES
MANUFACTURING COMPANY LIMITED**

For the purpose of developing mutual economic cooperations, Hu Men Longyuan Township Enterprise Development Company of Dongguan City (hereinafter referred to as Party A) and Radica China Company Limited, a British Virgin Islands Company (hereinafter referred to as Party B), adhering to the principle of equality and mutual benefit and through friendly consultations, and with a view to cooperative management of the games manufacturing business, agree to enter into these articles of association (the "Articles of Association") in addition to the cooperative joint venture contract (the "Contract").

Chapter One General Principles

Article 1. Dongguan Radica Games Manufacturing Co. Ltd. (the "Company") is an enterprise which is jointly managed by Hu Men Longyuan Township Enterprise Development Company of Dongguan City and Radica China Limited Company and is, by nature, Sino-foreign joint venture enterprise.

Legal Address of the Company: Hu Men Town Longyuan Management Area of Dongguan City, Guangdong Province

Article 2. All activities of the Company shall be governed by the laws, rules and relevant regulations of the People's Republic of China (The "PRC").

Article 3. The total amount of investment of the Company shall be five million U.S. Dollars (US\$5,000,000.00) with the registered capital of one million U.S. Dollars (US\$1,000,000.00), one million and ninety hundred thousand U.S. Dollars (US\$1,900,000.00) of which shall go to equipment capital, seven hundred and fifty thousand U.S. Dollars (US\$750,000.00) of which shall go to working capital, and two million three hundred and fifty thousand U.S. Dollars (US\$2,350,000.00) shall go to the fees for land use, premises and civil constructions.

Chapter Two Terms, Renewal and Termination of the Contract

Article 4. The term of the Company shall be thirty (30) years commencing from the date of the issuance of the business licence.

Article 5. Upon the expiration of the Contract, Party A and Party B may, within six (6) months prior to such expiration and upon obtaining a mutual agreement between Party A and Party B, apply with the original examination and approval authority of the PRC for approval of the renewal of the term of the Company.

Article 6. Should one party hereto cause economic losses as a result of breaching the Contract, the breaching party shall be liable for payment of damages.

Article 7. Upon the termination of the Contract, the Company shall, promptly after the completion of all liquidation procedures, report to the original examination and approval authority, process with the original administrative bureau of industry and commerce for cancelling its registration, and submit its business licence.

Chapter Three Business Objective and Production Scale

Article 8. The business objective of the Company is to set up an enterprise which is able to possess advanced technologies and equipments and to produce games products in excellent quality and being competitive on international markets.

Article 9. The Company shall manufacture annually twenty-two million (22,000,000) units of the games representing annual production value of fifty-nine million eight hundred thousand Renminbi (RMB59,800,000.00).

Chapter Four Purchase and Sales

Article 10. In purchases of equipment, raw materials, components and parts, etc., the Company shall give the first priority to the purchases within the PRC under the same purchase condition and shall, in case imports are required, organize such importation or entrust Party B to conduct such purchases abroad subject to the mutual agreement on the prices.

Article 11. Party B shall be responsible for overseas sales of eighty percent (80%) of the games products as produced by the Company and Party A shall be responsible for domestic sales of twenty percent (20%) of the games products as produced thereby.

Chapter Five Board of Directors and Managers

Article 12. A board of directors (the "Board of Directors") composing of seven (7) directors ("Directors") shall be established on the day when the Contract becomes effective. Two (2) Directors shall be appointed by Party A and five (5) Directors shall be appointed by Party B. One chairman (the "Chairman") shall be appointed by Party B and one vice-chairman (the "Vice-Chairman") shall be

appointed by Party A. The term of office for the Chairman, the Vice-Chairman and the Directors shall be four (4) years and may be renewable if reappointed by each appointing party and shall be deemed to be renewed in the absence of reappointment at the expiration of the office term. The Board of Directors shall be the highest authority of the Company and shall, in accordance with the laws, rules and relevant regulations of the PRC, make the rules for the Company and the principles for the staff and workers, and determine, with regard to the Company, the management policies, the development plans, the product sales price, examination of the financial budgets and of final accounting of revenue and expenditure, profit allocations, arrangement and dismissal of the personnel, salaries and welfare, and other important matters regarding production management. The Board of Directors shall convene a board meeting semi-annually.

Article 13.

The Company shall establish an institution of the general manager's responsibility under the supervision of the Board of Directors. The Company shall set up one general manager (the "General Manager") and one deputy general manager (the "Deputy General Manager"). The authorities and powers as vested in them is to carry out the decisions of the Board of Directors, to be directly responsible for profits and losses, the making and delivering various plans regarding production and management of the Company, to direct production departments for ensuring the implementation thereof, and to be in charge of supplies of materials and sales of the products.

Chapter Six Finance, Accounting and Tax

Article 14.

The Company is an economic enterprise, effecting an independent finance and accounting system. Its accounting system shall comply with the relevant stipulations of the financial and taxation department of the PRC. The fiscal years of the Company shall commence on November 1 and end on October 31 of each calendar year. The accounting of the Company shall adopt the internationally used accrual basis and debit and credit accounting system. All self-made vouchers, account books, financial statements of the Company shall be kept in Chinese language or both in Chinese language and English language.

Article 15.

The Company may apply to the Bank of China Dongguan Branch for opening accounts both in

Renminbi and in foreign currency.. Transactions of the Company shall, during the ordinary course of business, be recorded separately in Renminbi and foreign currency. The conversion of Renminbi into other currency shall be in accordance with the exchange rate of the first concerting day of each month published by the State Administration of Exchange Control of the PRC. The Company shall adopt Renminbi as the standard accounting currency.

Article 16. The Company may, upon the approval by the Board of Directors, apply to the Bank of China for short-term loans. Should the Company apply to a foreign bank for loans, Party B shall issue its letter of guarantee.

Article 17. Party A shall not participate in the profit allocation of the Company, but shall receive from the Company and commencing from the first year, eight hundred thousand Renminbi (RMB\$00,000.00) as the management fee, which shall be increased consecutively by twenty percent (20%) every three years commencing from the fourth year.

Article 18. Each of the Parties of the Company shall separately pay income tax on the pre-tax profits as allocated by the Company, and shall, in accordance with the relevant stipulations of the government of the PRC, withdraw "three funds" and put them into unitary use for the Company.

Article 19. The Company shall, pursuant to the relevant tax laws of the PRC, pay taxes during its course of economic activities and may apply for tax deduction, tax exemption and any other tax preferential treatments.

Article 20. The Company shall, in fixed period of time, report to the relevant authorities in relation to, and submit to the relevant authorities its management statements such as balance sheets and income statements and shall be subject to their supervision.

Chapter Seven Recruitment and Dismissal of Staff and Workers

Article 21. The issues of recruitment and dismissal of the staff and workers (the "Staff and Workers"), and of labour salaries shall be settled pursuant to the relevant stipulations of the PRC and the labour contracts as entered into between the Company and the trade union (to be defined hereinafter).

Article 22.

The Staff and Workers who violate or derogate from the regulations or rules or labour disciplines of the Company and thus cause certain adverse effects shall, in accordance with the stipulations in the labour contract, and depending upon the extent or the degree of seriousness of such violation or derogation, be given such punitive treatments as warning, demerit record, salary reduction or even dismissal.

Article 23.

The Company may dismiss those Staff and Workers who become surplus to the requirements due to the changes in production and technical conditions, and, who, after undergoing certain skill retraining, still cannot be transferred to or cannot fit other positions, provided that such dismissal shall be conducted in accordance with the stipulations of the labour contracts, and shall be effected with certain compensation by the Company.

Article 24.

The Staff and Workers may, pursuant the labour contracts, resign their jobs. The Company shall, however, provide no compensation therefor.

Those Staff and Workers who have been trained by the Company and thus obtained special skill shall work for the Company for three (3) years and shall refund the Company their training fees as paid by the Company if they work for the Company less than three (3) years.

Article 25.

With regard to any dismissal or punishment of the Staff and Workers of the Company, the trade union is entitled to disagreement and thus to send its representatives to the Company for settlement through consultations where it considers such dismissal or punishment is unfair. In case a consensus fails to be reached through such consultations, one party or both parties to the dispute may apply to the superior authority of labour administration for arbitration. Should one party not agree with the award entered into, it shall file a litigation before a relevant People's Court and the litigation fees thereof shall be borne by the losing party.

Chapter Eight Salaries and Welfare of Staff and Workers

Article 26.

The salaries and welfare of the Staff and Workers of the Company shall be determined according to the relevant stipulations of the government of the PRC.

Article 27. The Company shall, in relation to the Staff and Workers thereof, adopt a periodical technical examination and promotion system, and shall apply a salary payment system computed on the basis of hours of work done and shall, with the development of the production, raise the standards of salaries and welfare correspondingly. The Company shall provide special awards to those who have made significant contributions thereto.

Article 28. The Company shall abide by the relevant regulations of the government or the PRC on labour protection, and shall guarantee safe and civilised production in respect of which the government of the PRC has the authority to carry out its supervision and inspection.

Chapter Nine Trade Union

Article 29. The Company shall, in accordance with the Law of Trade Union of the PRC, establish a trade union (the "Trade Union"), the task of which is to: represent the Staff and Workers to sign collective labour contracts with the Company, protect legitimate rights and interest of the Staff and Workers, organise and educate the Staff and Worker to perform the contracts and to obey the disciplines, to learn skills and to finish the production assignments, and disciplines those who violated the laws of the PRC or factory rules promptly.

Article 30. The Trade Union of the Company shall participate in the mediation of any possible disputes arising between the Staff and Workers and the Company.

Article 31. The Company shall, in accordance with the Law of Trade Union of the PRC, set up a trade union fund in the amount equal to two percent (2%) of the total actual salaries of the Staff and Workers of the Company, and the use of which shall be supervised by the Trade Union for the purposes of the collective welfare fees of, the entertainment and sports activities of, and improvement of material and cultural life of the Staff and Workers.

Article 32. Personnel in charge of the Trade Union of the Company may, if necessary, attend the meetings of the Board of Directors, to reflect the opinions and requirements of the Staff and Workers as being represented, take part in the discussion of the issues in relation to production, operation, salaries, welfare and labour protection without

having voting rights.

Chapter Ten Miscellaneous

Article 33. Should any stipulations in these Articles of Association contravene the relevant laws and regulations of the PRC, the latter shall prevail. Should there be anything imperfectly subscribed or omitted herein, the Board of Directors of the Company shall modify or amend these Articles of Association and shall submit them to the original examination and approval for approval.

Article 34. These Articles of Association shall, after agreed upon by Party A and Party B, take effect from the date on which approval is granted by the relevant authority of the PRC.

IN WITNESS WHEREOF both Party A and Party B have caused these Articles of Association to be executed by the representative duly authorized by both Parties in June 1994 at Dongguan City, Guangdong Province of the PRC.

Party A:
Hu Men Longyuan Township Enterprise Development Company of Dongguan City

Legal Address: Hu Men Town Longyuan Management Area of Dongguan City

Telephone Number:

Legal Representative:

Party B:
Radica China Company Limited (British Virgin Islands Company)

Legal Address: Omar Hodge Building, Wickhams Cay 1, P.O. Box 362, Road Town, Tortola, British Virgin Islands

Telephone Number:

Legal Representative:

東莞市虎門鎮對外經濟辦公室

Foreign Economic Affairs Office of
Humen Town Dongguan City

东虎外办引字 [1994] 086号

关于合作经营东莞乐迪卡游戏机制造厂 有限公司合同、章程的批复

东莞市虎门龙眼加工办：

报来“东虎(龙眼)外引字(1994)05号”文悉。经研究，同意东莞市虎门龙眼乡镇企业发展公司(下称甲方)与(英属维尔京群岛)均景中国有限公司(下称乙方)合作经营“东莞乐迪卡游戏机制造厂有限公司”(下称合作企业)，现就该项目主要内容批复如下：

一、合作企业投资总额500万美元(注册资本同)，包括进口设备价款190万美元，流动资金75万美元，土地使用费及厂房土建费235万美元。设备价款、流动资金、土地使用费及厂房土建费均由乙方无息提供。甲方有偿提供土地20000平方米给乙方使用，乙方一次性付给甲方土地使用费400万元人民币。乙方提供的设备资金及厂房土地费、在经中国政府有关财税部门批准后可提取年折旧费，在利润分配前由合作企业归还乙方。合作期满后，一切固定资产不再作价，归甲方所有。

二、合作企业生产游戏机产品,年产量为2200万台。产品分内外销两种,内销占20%,外销占80%,概由合作企业负责。全部产品定价包销,销售价格由董事会商定。产品的内销,需符合中国政府的有关规定。

三、合作企业经营期限为三十年,自营业执照签发之日起计。合作企业法定地址设在东莞市虎门镇龙眼管理区。

四、同意合作企业经营管理由乙方负责,如发生亏损,甲方不承担任何经济责任,同时在任何情况下,乙方保证每年上缴给甲方收益80万元人民币,并从第四年起按每三年递增20%的幅度支付。

五、合作企业为独立核算经济实体,可向东莞市办理外汇结算业务的有关银行申请开办外币帐户和人民币帐户。

六、合作企业机构设置,甲乙双方责任、出资期限等按合同规定执行;有关注册登记、外汇管理、验资、税收、保险、仲裁等,按我国政府有关规定办理。

七、合作企业生产所需物资进口时,除国家、省控制进口的外,凭盖有我办公章的物资清单,报请海关验放。

此 复



抄 报: 省经贸委、省工商局、市府办、市外经贸委、太平海关、
市计委、财局、工商局、税局、外管局、劳动局、中行
抄 送: 保险公司、会计师事务所

**合作经营东莞乐迪卡游戏机
制造厂有限公司**

合

同

**东莞市虎门龙眼乡镇企业发展公司
(英属维尔京群岛)均景中国有限公司**

一九九四年六月二十四日

合作合营东莞乐迪卡游戏机制造厂有限公司

合 同

为了发展双方经济合作，东莞市虎门龙眼乡镇企业发展公司（下称甲方）同英属维尔京群岛（也译英属处女岛）均景中国有限公司（下称乙方）本着平等互利原则，经过充分友好协商，就合作经营游戏机制造业务，一九九四年六月十日在东莞市签订如下合同：

一、总 则

第一条：甲方：东莞市虎门龙眼乡镇企业发展公司，在东莞市工商局登记注册，其法定地址为：东莞市虎门镇龙眼管理区；法定代表姓名：张润森；职务：经理；国籍：中国。

第二条：乙方：均景中国有限公司。在英属维尔京群岛（即处女岛）登记注册，其法定地址为：Omar Hodge Building, Wickhams Cay 1, P.O. Box 362, Road Town, Tortola, British Virgin Islands, 其通讯地址为：Suite R-6/F1-2-12 Au Pui Man Street, Fo Tan, Shatin, N.T., Hong Kong.（香港新界火炭坳背街2-12号威力工业中心6幢R）。其法定代表姓名：David C.W. Howell. 职务：董事长，国籍：英国。

第三条：甲乙双方同意在广东省东莞市虎门镇龙眼管理区设立合作企业，定名为：东莞乐迪卡游戏机制造厂有限公司。英文：DONGGUAN RADICA GAMES MANUFACTORY CO., LTD.（下称合作企业）。合作经营范围为生产和销售游戏产品。

第四条：双方商定合作期限为三十年，自合作企业营业执照签发之日起计。

第五条：合作企业具有中华人民共和国法人的地位，其一切活动必须遵守中华人民共和国的法律、法令和有关条例规定。

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二、合作条件及利润分配

第六条：甲方提供土地20000平方米给乙方使用，乙方一次性付给甲方土地使用费人民币400万元正。

第七条：乙方无息投资500万美元。其中设备资金190万美元，流动资金75万美元，土地使用费及厂房土建费共235万美元。

第八条：合作企业投资总额为500万美元。注册资本为500万美元。

第九条：乙方投资额经在中国注册的会计师进行验资后，由合作企业据此向乙方发给投资证明书。乙方提供的设备资金及厂房土建费，在经中国政府有关财税部门批准后可提取年折旧费，在利润分配前由合作企业归还乙方。

第十条：合作企业经营管理由乙方负责，如发生亏损甲方不承担任何经济责任。在任何情况下，乙方保证每年上缴给甲方收益80万元人民币，并从第四年起按每三年递增20%的幅度支付。合作企业在各自缴交所得税后，按国家及地方规定提取“三项基金”。

第十一条：乙方按合同规定的全部所得收入（包括利润和折旧摊销收回的投资额），在减除向中国政府缴纳有关税收后，如需汇出，应按照《中华人民共和国外汇管理暂行条例规定》，通过中国银行东莞分行如数汇出乙方指定的银行帐户内。从合作期满时起，合作企业所有的固定资产全部不再作价，归甲方所有。本合同临近期满时，若乙方尚未能收回投资，经双方协商，可以相应延长合作期限。但须提前报请原审批机关批准。

三、生产与购销

第十二条：合作企业生产游戏机。年产量为2200万台；产品分内外销两种，内销占20%，外销占80%，概由合作企业负责。产品的内销需符合中国政府的有关规定。全部产品定价包销，定价原则以生产成本加合理利润为出厂价，每半年由董事会讨论一次，适当时调整包销价格；随着合作企业的生产发展和市场需求，经原审批部门批准后可相应增加年产量。

称甲
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第十三条：合作企业所需设备、原辅料、配套件等，在条件许可的情况下，尽先在中国境内购买，确需进口的，可由合作企业在外组织进口或委托乙方在外购买，其价格须经双方认可。

第十四条：由合作企业委托乙方购进的设备，乙方应派人员指导安装和进行生产技术培训，使产品质量符合要求。

四、合作各方和责任

第十五条：合作公司经批准后，甲乙双方应履行下列责任（包括筹建阶段）。

甲方所负的责任：(1)办理为合作公司向中国有关主管部门申请批准登记注册、领取营业执照等事宜；(2)协助合作公司招聘经营管理人员、技术人员和工人；(3)协助合作公司在国内购置生产所需的燃料、油料及解决水电的供应；(4)负责办理合作公司委托的其它事宜。

乙方所负的责任：(1)如期按合同规定出资；(2)负责购买合作公司委托在外购买生产所需的设备零部件以及原辅料和包装物料等事宜；(3)负责培训合作公司的技术人员和工人；(4)负责指导设备的安装、试车、试产工作；(5)负责传授生产技术，抓好产品质量，使产品质量符合要求；(6)负责介绍国外市场动态及先进管理方法；(7)组织合作公司厂房的装修工程设计及施工；(8)负责产品外销；(9)负责办理合作公司委托的其它事宜。

五、企业管理机构

第十六条：合作企业由合作各方派员组成董事会。董事会为合作企业的最高权力机构，由七人组成。其中甲方二人，乙方五人。董事长一人，由乙方委派，副董事长一人，由甲方委派，其余为董事，董事和董事长任期四年。经委派方继续委派可以连任，若任期届满未作继续委派则视同其继续连任。董事会的职权在本合作企业章程内具体规定。

第十七条：由董事会聘请总经理一人，副总经理一人。正副总经理执

行董事会各项决定理由乙方担任，副职的，经董事会会

第十八条：合
中国政府有关规定
物价水平，由董事

第十九条：本
度按中华人民共和国
记帐本位币。

第二十条：合
一止。一切凭证、单
合作企业在投产前，
向各合营者发给投资

第二十一条：合
将结果报告董事会和
审计师对年度财务进
负责。

第二十二条：每
的资产负债表、损益

第二十三条：合
界方为有效。国外或

第二十四条：合
帐户。一切营业开支
规定在合作企业中所
理。

行董事会各项决定，其职权和任期在合作企业章程内规定。第一任正总经理由乙方担任，副总经理由甲方担任；正副总经理如有营私舞弊或严重失职的，经董事会会议决定可随时撤换。

六、工资及福利

第十八条：合作企业管理人员的工资、职务津贴、奖金等标准，根据中国政府有关规定和参与其他合作经营企业现行办法，并按东莞市实际物价水平，由董事会商定。并每年须合理递增。

七、财务会计及外汇管理

第十九条：本合作企业属中外合作经营独立核算经济实体，其会计制度按中华人民共和国政府财政、税务部门的有关规定办理。并以人民币为记帐本位币。

第二十条：合作企业的会计年度从公历每年十一月一日起至十月三十一止。一切凭证、单据、帐簿、报表用中文书写，亦可同时用英文书写。合作企业在投产前，应聘请在中国注册的会计师进行验资，并由合作企业向各合营者发给投资证明书。

第二十一条：合作企业的财务审计聘请在中国注册的会计师审核，并将结果报告董事会和总经理。如乙方认为需要聘请其他国家（或地区）的审计师对年度财务进行审查，甲方应予以同意，其所需要一切费用由乙方负责。

第二十二条：每一营业年度的头三个月，由总经理组织编制上一年度的资产负债表、损益计算书和利润分配方案，提交董事会会议审查通过。

第二十三条：合作企业的全部设备和原材料费开支，必须取得正式发票方为有效。国外或港澳地区的发票必须附有中国口岸报关单和关税单。

第二十四条：合作企业可向中国银行东莞分行申请开设外汇和人民币帐户。一切营业开支，均通过上述银行管理，并接受其监督。乙方按合同规定在合作企业中所获得的一切收入，如需汇出，均需通过上述开户银行办理。

第二十五条：合作企业在平时应以人民币和外币分别记帐，按当天的国家外汇管理局当时公布的外汇牌价作为记帐汇率。

第二十六条：乙方派驻合作企业的技术人员和高级职员工资及合法收入，扣除在中国境内的生活费后，其余要汇出国外，应按国家外汇管理局有关外汇管理的规定办理。

八、注册、税收、保险

第二十七条：合作企业须向中国工商行政管理部门办理工商登记，领取营业执照。并向所在地税务部门办理税务登记。合作企业应纳的各项税款，均按中国政府有关税法规定办理。

第二十八条：合作企业的各项保险均按中国人民保险公司东莞分公司投保。

九、物资进口口岸

第二十九条：合作企业机器设备、原辅料和包装物料的进口及成品出口，均经太平及文锦渡口岸。

十、违约责任

第三十条：乙方投资额，应在合同批准之日起六个月内缴足。如不能依期缴足，又无充分的实际理由。则视同违约及自愿结束合营；若具备充分的实际理由，可申请延期以一个月为限；若逾期仍未缴足。则视同违约及自愿结束合营。发生上述违约情况时，守约方有权申请单方结束合营，并要求违约赔偿损失。

第三十一条：本合同经中国政府有关部门批准后，双方应严格遵守。任何一方不得擅自终止。若因特殊情况，一方要求提前终止，必须在六个月前提出，经双方同意后，办理终止手续，报请原审批机关批准。如一方擅自终止或不履行合同。造成对方经济损失的，由该方负责赔偿对方因此而遭受的经济损失。

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部门批准
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请原审机

甲
东莞市虎
地址：东

电话：551178
法定代表：〈

十一、不可抗力

第三十二条：由于地震、台风、火灾、战争以及其它不能预见并且对发生和后果不能防止或避免的不可抗力事故，致使直接影响合同的履行或者不能按约定条件履行时，遇有上述不可抗力事故的一方应立即将事故情况电报通知对方。并应在十五天内，提供事故详情及合同不能履行、或者部分不能履行、或者需要延期的理由的有效证明文件（该文件应由事故发生地区的公证机构出具）。按照事故对履行合同影响程度，由双方协商决定是否解除合同，或者部分免除履行合同的责任、或者延期履行合同，并须报请原审批机构审批。

十二、产品商标

第三十三条：合作企业内外销产品商标，由合作双方商定使用方案，但必须遵守向有关销售国（地区）申请注册登记的原则。

十三、仲裁

第三十四条：在本合同有效期内，如有争议，双方应本着友好合作精神，通过协商解决。经协商仍不能解决时，应提交中国国际贸易仲裁委员会进行调整和裁决。该会裁决为终局裁决，双方必须遵守执行。

十四、附则

第三十五条：本合同经甲乙双方签署后，自中华人民共和国政府有关部门批准之日起生效。

第三十六条：本合同如有未尽事宜，经双方协商后可修改或补充，并请原审机构批准后，作为本合同的附件。

甲 方

东莞市虎门龙眼乡镇企业发展公司（英属维尔京群岛）均景中国有限公司

地址：东莞市虎门镇龙眼管理区 地址：Omar Hodge Building, Wickhams

电话：551178

法定代表：（签名）

企业发展有限公司
一九九九年六月二十四日
于中国东莞市

乙 方

（英属维尔京群岛）均景中国有限公司

地址：Omar Hodge Building, Wickhams

Cay 1, P.O. Box 362 Road Town,

Tortola, British Virgin Islands

电话：(852)6932238

法定代表：（签名）

for and on behalf of
RADICA CHINA LIMITED

Authorized Signature(s)

东莞乐迪卡游戏机制造厂有限公司乙方提供设备零配件清单

序号	设备及配备名称	规格型号	单位	数量	单 价 (美元)	总 计 (美元)
以下设备均为全新						
一	生产设备					
1	丝印机		台	6	1750	10500
2	丝印生产线		套	2	1500	3000
3	丝印烤箱		套	2	1500	3000
4	配件		公斤	1000	4	4000
5	25匹水冷式冷气机		台	25	500	12500
6	烫印机		台	4	4000	16000
7	移印机		台	4	4300	17200
8	4安注塑机		台	11	20000	220000
9	8安注塑机		台	16	25000	400000
10	20安注塑机		台	4	40000	160000
11	45安注塑机		台	1	80000	80000

For and on behalf of
RADICA CHINA LIMITED

Authorized Signature

94年6月24日

东莞乐迪卡

序号	设备及配备
12	冷水机
13	模温控制机
14	注塑机配件
15	稳压器
16	水塔
17	自动波焊机
18	切脚机
19	自动喷油机
20	水压喷油机
21	喷油配件
22	风泵
23	皮带式生产

东莞乐迪卡游戏机制造厂有限公司乙方提供设备零配件清单

序号	设备及设备名称	规格型号	单位	数量	单 价 (美元)	总 计 (美元)	备 注
12	冷水机		台	6	3000	18000	
13	恒温控制机		台	4	1500	6000	
14	注塑机配件		公斤	1000	45	45000	
15	稳压器		台	7	3000	21000	
16	水塔		个	3	4100	12300	
17	自动波焊机		台	1	40000	40000	
18	切脚机		台	5	2000	10000	
19	自动喷油机		台	1	10000	10000	
20	水压喷油机		台	1	20000	20000	
21	喷油配件		套	1	8000	8000	
22	风泵		台	5	2300	11500	
23	皮带式生产线	60"	套	10	7000	7000	



For and on behalf of
RADICA CHINA LIMITED

Authorized Signature(s)

94年6月24日



东莞乐迪卡游戏机制造厂有限公司乙方提供设备零配件清单

序号	设备及设备名称	规格型号	单位	数量	单 价 (美元)	总 计 (美元)
24	皮带式生产线	30"	套	10	4600	46000
25	圆转式生产线		套	2	10000	20000
26	特种生产线		套	8	9000	72000
27	生产线配件		公斤	1000	14	14000
28	660KV发电机		台	3	94000	282000
29	600KVA变压器		台	3	10000	30000
30	维修工具		公斤	1000	2.5	2500

小计：壹佰陆拾陆万肆仟伍佰港元 HK\$: 1664500

二	管理办公设备					
1	电脑连打印机		套	20	3500	70000
2	复印机		台	5	1100	5500
3	传真机		台	2	2500	5000
4	电话交换机		台	1	5000	5000

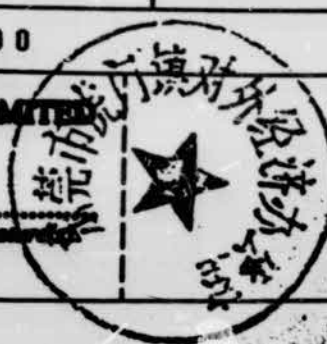
小计：捌万伍仟伍佰港元 HK\$: 85500



For and on behalf of
RADICA CHINA LIMITED

Authorized Signature

1994年6月24日



月 日

东莞乐

序号	设备
三	车辆
1	10座
2	12座
小计：壹拾贰	

肆页清单合计：



东莞乐迪卡游戏机制造厂有限公司乙方提供设备零配件清单

序号	设备及配件名称	规格型号	单位	数量	单 价 (美 元)	总 计 (美 元)	备 注
三	车辆						
1	10吨货车	乐迪	辆	2	55000	110000	
2	12座面包车		辆	1	15000	15000	

小计：壹拾贰万伍仟港元

HK\$：125000

本页清单合计：壹佰捌拾柒万伍仟港元

HK\$：1875000

For and on behalf of
RADICA CHINA LIMITED

App: (Signature)

94年6月24日

年 月 日

**中外合作经营企业
东莞乐迪卡游戏机制造厂有限公司**

章

程

一九九四年六月 日

目录

第一章	总 则
第二章	合同期限、延长与终止
第三章	经营目的和生产规模
第四章	购销业务
第五章	董事会、经理
第六章	财务、会计、税务
第七章	职工的雇用和解雇
第八章	职工的工资和福利
第九章	工会组织
第十章	附 则

“东”

“东”
京群岛也
则，经过
(下称合

第一条
“东莞市
岛)均景中
合作企
第二条
有关条例
第三条
元)，其中
厂房土建费

第四条
第五条
期满前六个
批准延长合
第六条
方负责赔偿
第七条
审批机构报
营业执照。

第八条
产在国际市
第九条：
万元。

“东莞乐迪卡游戏机制造厂有限公司”章程

前 言

“东莞市虎门龙眼乡镇企业发展公司（下称甲方）”与“（英属维尔京群岛也称处女岛）均景中国有限公司（下称乙方）”，本着平等互利原则，经过充分友好协商，就合作经营游戏机的产销业务，除签署合营合同（下称合同）外，特制订本章程。

第一章 总 则

第一条：“东莞乐迪卡游戏机制造厂有限公司”（下称合作企业）是由“东莞市虎门龙眼乡镇企业发展公司”与“（英属维尔京群岛（也称英属处女岛）均景中国有限公司”合作经营的企业，属中外合作经营企业性质。

合作企业的法定地址为：广东省东莞市虎门镇龙眼管理区。

第二条：合作企业一切活动，必须遵守中华人民共和国法律，法令和有关条例规定。

第三条：合作企业投资总额为500万美元（注册资本为500万美元），其中设备价款190万美元，流动资金75万美元，土地使用费及厂房土建费共235万美元。

第二章 经营期限

第四条：合作企业经营期限为三十年，从营业执照签发之日起计。

第五条：合作企业经营期满时，如甲乙双方愿意继续合作，可在合同期满前六个月提出，经双方协商同意，报请中华人民共和国政府有关部门批准延长合作经营期限。

第六条：因一方违反合同而造成另一方的经济损失，由违反合同的该方负责赔偿。

第七条：合作企业在合营合同终止时，清理工作一结束，应及时向原审批机构报告，并向原注册登记的工商行政管理局办理注销手续，并交回营业执照。

第三章 经营目的和生产规模

第八条：合作企业的经营目的，是建设具有先进技术和设备的企业生产在国际市场上具有竞争能力的优质游戏机（产品）。

第九条：合作企业年产游戏机共2200万台，年产值为人民币5980万元。

第四章 购销业务

第十条：合作企业生产所需的原辅料及包装物料，在中国境内外市场条件相当时，尽先在中国境内购买；如确需进口，可由合作企业在外组织或委托乙方在外购买。其价格须经双方认可。

第十一条：合作企业产品80%外销，由乙方负责；20%内销，由甲方负责。全部产品定价包销，产品销售价格由董事会商定。

第五章 董事会和总经理

第十二条：在合同生效之日，成立由7人组成的董事会。其中甲方2人、乙方5人；董事长1人，由乙方委派，副董事长1人，由甲方委派，其余为董事。董事和正副董事长任期为4年，经委派方继续委派可以连任。若届满时未办理接任委派手续，则视同连任下一届。董事会为合作企业的最高权力机构。董事会根据中国政府的法律、法令和有关规定，制定合作企业规章制度、员工守则，决定合作企业的经营方针、发展计划、产品销售价格，审核财政收支预算、决算、利润分配、人员编制、人事任免、工资福利待遇，以及决定其他生产经营上的重大问题。董事会召开会议，每半年一次。

第十三条：合作企业实行董事会领导下的经理负责制。下设总经理1人，副总经理1人。其职权是：贯彻董事会的决议，并对合作企业盈亏负直接责任；主持制订和下达合作企业所属生产部门的各项生产经营计划，并领导组织生产部门保证其实施；负责原材料供应和产品的销售。

第六章 财务、会计、税务

第十四条：合作企业实行独立核算成本，执行中华人民共和国财政部门规定的会计制度。会计年度从公历年每年十一月一日起至十月三十一日止。合作企业会计，采用国际通用的权责发生制和借贷记帐法记帐，一切自制凭证单据、帐簿、报表用中文书写，亦可同时用英文书写。

第十五
合作企业依
理局公布的

第十六
如需向国外

第十七
80万元人

第十八
各自按中国
用。

第十九
民共和国税
受优惠待遇。

第二十
亏情况的报

第二十
和合作企业

第二十二
可根据劳动
薪直至开除

第二十三
以及经过培
要按照劳动

第二十四
业不予补偿。

第十五条：合作企业在中国银行东莞分行申请开设人民币和外汇帐户。合作企业的人民币和外汇收支须分别记帐，并按当月第一天的国家外汇管理局公布的外汇牌价作为记帐汇率。合作企业采用人民币为记帐本位币。

第十六条：经董事会协商同意，合作企业可向中国银行申请短期贷款。如需向国外银行贷款时，由乙方出具保函。

第十七条：甲方不参与合作企业的利润分配，第一年向合作企业收取80万元人民币，并从第四年起每三年递增20%。

第十八条：合作企业双方所分得的税前利润，须各自缴交所得税，并各自按中国政府有关规定按比例提取“三项基金”并纳入合作企业统一使用。

第十九条：合作企业在各项经济活动中，有关纳税事项应按《中华人民共和国税法》规定交纳各项税金，并可按有关规定，申请减免税收和享受优惠待遇。

第二十条：合作企业必须定期向有关主管部门按时报送经营、资产盈亏情况的报表资料，并接受其监督。

第七章 职工的雇用和解雇

第二十一条：职工的录用、解雇和劳动工资，依照中国政府有关规定和合作企业与工会双方订立的劳动合同办理。

第二十二条：职工违反工厂规章制度和劳动纪律，并造成一定后果者，可根据劳动合同规定，按情节轻重，分别不同情况，给予警告、记过、降薪直至开除处分。

第二十三条：合作企业对因生产、技术条件发生变化而多余的职工，以及经过培训不能适应要求、又不宜改调其他工种的职工，可以解雇，但要按照劳动合同规定，由合作企业给予一定补偿。

第二十四条：合作企业职工，可按劳动合同规定要求辞职，但合作企业不予补偿。

经合作企业培训有专门技术的职工，应为合作企业服务三年；不足三年应赔偿合作企业对其培训费。

第二十五条：对合作企业解雇，处分职工，工会如认为有不合理的，有权提出异议，并派代表和合作企业协商解决。如协商不能一致，可由争议一方或双方向上级管理部门请求仲裁。如有一方不能仲裁决定，应向合作企业所在地所属辖区的人民法院提出诉讼。其费用由败诉一方负担。

第八章 职工的工资和福利

第二十六条：职工的工资和劳保福利，由合作企业按中国政府有关规定办理。

第二十七条：合作企业对职工实行定期的技术考核和升级制度，原则上实行计时工资制，并随生产的发展相应提高工资福利。对合作企业有卓越贡献者，应给予特殊奖励。

第二十八条：合作企业应执行中国政府有关劳动保护的规章制度，保证安全生产和文明生产。中国政府有关劳动管理部门有权就此进行监督检查。

第九章 工会组织

第二十九条：合作企业根据《中华人民共和国工会法》建立工会组织。其任务是：代表职工同合作企业签订集体劳动合同，维护职工的正当权益；团结教育全体职工执行合同、遵守纪律、学习技术、完成生产任务；对违反国家法律或合作企业制订的厂规者，应及时加以教育。

第三十条：合作企业工会参加调处职工和合作企业之间可能发生的争议。

第三十一条：根据《中华人民共和国工会法》规定，合作企业按照职工实得工资总额提取百分之二的工会费，并由工会监督使用职工集体福利经费，开发职工文娱、体育活动，改善职工的物质文化生活。

第三十二条：工会负责人必要时可列席董事会。反映职工意见。参加有关生产经营和职工工资、福利、劳保问题的讨论，但没有表决权。

第十章 附 则

第三十三条：本章程如与中国政府有关规定相抵触时，以中国政府有关规定为准。如有不尽之处，由合作企业董事会修改或补充，并报原审机关批准。

第三十八条：本章程经合作企业甲乙双方认可后，自中华人民共和国政府有关部门批准之日起生效。

甲 方

乙 方

莞市虎门龙眼乡镇企业发展公司 (英属维尔京群岛)均景中国有限公司

址：东莞市虎门镇龙眼管理区 地址：Omar Hodge Building,

Wickhams Cay 1, P.O. Box 362

Road Town, Tortola, British

Virgin Islands

话：551178

表：

张 润 霖 限 公 司

电话：551178 LIMITED

代表：

W. H. Hodge

Authorized Signature(s)

一九九四年六月 日

于中国东莞市

关于中外合作经营
东莞乐迪卡游戏机制造厂有限公司

可
行
性
报
告

东莞市虎门龙眼乡镇企业发展公司
(英属维尔京群岛) 均景中国有限公司

1994年6月24日

关于合作经营“东莞乐迪卡游戏机制造厂有限公司”的可行性报告

东莞市虎门龙眼乡镇企业发展公司与英属维尔群岛（也译处女岛）均景中国有限公司经过充分协商，一致同意在东莞市共同举办合作经营企业，经营游戏机产销业务。现将该项目的可行性分述如下：

一、合作企业名称与性质：

合作企业定名为“东莞乐迪卡游戏机制造厂有限公司”（下称合作企业），（其英文名称为：DONGGUAN RADICA GAMES MANUFACTORY CO., LTD），属中外合作性质。

二、合作企业所在地：

合作企业设在广东省东莞市虎门镇龙眼管理区。

三、合作各方及其法定代表人：

1、东莞市虎门龙眼乡镇企业发展公司（下称甲方）

法定代表：张润森。

2、（英属维尔京群岛）均景中国有限公司（下称乙方）

法定代表：David C.W. Howell（贺大维）

四、项目申请理由：

本项目之外方（英属维尔京群岛）均景中国有限公司其子公司均景电子游戏机有限公司及香港均景有限公司经营生产制造游戏机已有多年时间，因此，该合作企业的原材料市场及产品销售市场是可行的，该产品出口美国、日本、欧洲等地，产品质量档次高，技术要求高，对环境污染少，并可解决本地人员就业问题，经济效益和社会效益都是明显好，综合上述，该项目是可行的。

五、投资总额为500万美元。其中：设备价款190万美元，流动资金75万美元，土地使用费及厂房土建费共235万美元。合作企业注册资本为500万美元。

六、合作条件：

(一)、资金、厂房与场地方面：

1、甲方提供土地20000平方米给乙方使用，乙方一次性付给甲方土地使用费人民币400万元正，并提供劳力2000人。

2、乙方无息投资500万美元，其中设备资金190万美元、流动资金75万美元，土地使用费及厂房土建费共235万美元。

(二)、外方投入设备及资金方面：

乙方投资额经在中国注册的会计师进行验资后，由合作企业据此向乙方发给投资证明书。乙方提供的设备资金及厂房土建费，在经中国政府有关财税部门批准后可提取折旧费，在利润分配前由合作企业归还乙方。

乙方按合同规定的全部所得收入（包括利润和折旧摊销收回的投资额），在减除向中国政府缴纳有关税收后，如需汇出，应按照《中华人民共和国外汇管理暂行条例规定》，通过中国银行东莞分行如数汇出乙方指定的银行帐户内。从合作期满时起，合作企业所有的固定资产全部不再作价，归甲方所有。本合同临近期满时，若乙方尚未能收回投资，经双方协商，可以相应延长合作期限，但须提前报请原审批机关批准。

(三)利润分配：

甲方不参与合作企业的利润分配，第一年甲方向合作企业收取八十万元人民币作管理费，并从第四年起每三年递增20%。若合作企业发生亏损，则乙方负担甲方管理费，合作企业在缴交所得税后，按国家及地方规定提取“三项基金”。

七、经营范围和生产规模：

合作企业为经营电子游戏机、机械式游戏机的产销业务，需引进生产用设备1000台/套，年产上述产品2200万台。

年产值为人民币5980万元。

产品20%内销，由甲方负责；80%外销，由乙方负责；全部产品定价包销，包销价格由董事会商定。

八、合作期限：

合作期限为30年。

九、物料来源：

生产所需原料、辅料、包装物料及燃料，主要系进口解决。

十、外商资信情况：

该投资外商David C.W Howell (贺大维) 先生是英国人，是(英属维尔京群岛)均景中国有限公司三个合伙人之一，是该公司董事长，该公司资金雄厚，其子公司(香港)均景有限公司早于91年已到我管理区投资办来料加工厂，现发展良好，据香港银行提供的银行资信表明，该企业是可靠的。

十一、初步经济效益分析：

(一)产品成本测算(按投产后正常生产年度计算)

1、年销售预测：

产品名称	年产量 (万台)	内 销 情 况			外 销 情 况			合计金额 (折合 人民币) (万元)
		数 量 (万台)	单 价	金 额 (万元)	数 量 (万台)	单 价	金 额 (万 元)	
1 掌上小型游戏机	1980	360	人民币 2.22 (元/台)	人民币 799.2 万元	1620	0.26 美元/台	421.2 (折人民币 3596.4万元)	4395.6
2 桌上型游戏机	220	40	人民币 7.2 (元/台)	人民币 288 万元	180	0.82 美元/台	147.6 (折人民币 1296万元)	1584
合 计 金 额		内销合计(人民币 1087.2万元)			外销合计美元568.8万元 (折人民币4892.4万元)			(全部合 计5979.6 万元(S)

(二)、年成本估算：

科 目	产品总成本 (人民币万元)	其中外汇支出 (万美元)	备 注
合 计 金 额	5426.6 (C)	348.4	
一、原辅材料及包装物料	3000	270	
二、费用开支	2426.6	78.4	
其中：工资	1200	40	
劳 务 费	50	/	
工 会 经 费	22	/	
企业管理费	60	/	
水 电 费	430	/	
土建、厂房宿舍租金	70	7.9	
设备折旧费	167.2	19	
维 修 费	30	2	
运 输 费	80	5	
保 险 费	15	1.7	
银行手续费	8	0.8	
关 税	320	/	
增 值 税	54.4	/	
其他(不可预见费)	20	2	

(三)、年税前利润测算：

$$\begin{aligned}
 \text{年税前利润} &= \text{收入总额 (S)} - \text{年总成本 (C)} \\
 &= \text{(人民币) } 5976.6 \text{ 万元} - 5426.6 \text{ 万元} \\
 &= 550 \text{ 万元 (P)}
 \end{aligned}$$

吨投产后的主要技术经济指标

(货币单位：人民币万元)

各阶段 项 目	第1~2年	第3~5年	第6~30年	30年累计
产 量	4400万台	4500万台	20000万台	28900万台
销售产值(S)	11953	24000	300000	335953
税前利润(P)	1100	2000	21250	24150
所 得 税	/	264	5610	5874
“三金”提取	165	260.4	2346	2741.4
净 利 润	935	1475.6	13294	15534.6

(注本表“所得税”系指合作企业所得税)

国外汇收支平衡测算

(单位：万美元)

项 目	第1~2年	第3~5年	第6~30年	30年累计
一、外汇收支	1137.6	2280	28500	31917.6
二、外汇支出	766.8	1512	15013.5	18192.3
其 中	原 辅 物 料	540	1139.8	13546
	港 方 工 资	80	120	900
	设备厂房折旧	53.8	80.7	290.5
	运 输 费 用	10	15	140
	修 理 费	4	6	60
	银行利息手续费	1.6	2.4	25
	其 他	7.4	11.1	100
港 方 利 润	88	137	852	1059
三、外汇结余	370.8	768	12586.5	13725.3

00 各方收益情况

(单位: 人民币万元)

项 目	第1~2年	第3~5年	第6~30年	30年累计
国家收益	748.8	1800	24810	27358.8
其 中				
关税	640	1296	16200	18136
工商税	108.8	240	3000	3348.8
所得税	/	264	5610	5874
甲方利润	160	272	5798.1	6230.1
乙方利润	775	1203.6	7495.9	9304.5

(c) 投资回收期计算

合作企业投资总额为人民币4300万元; 若仅以头几年所得纯利统计, 静态计算需7年9个月时间可全部收回此额。

甲 方:

名称: 东莞市虎门龙眼乡镇企业发展公司 (盖章)

联系人: 张润森 联系电话: 551178



乙 方:

名称: (英属维尔京群岛) 均景中国有限公司

联系人: David C.W Howell 联系电话: (852)6932238

(贺大维)

For and on behalf of
RADICA CHINA LIMITED
均景中国有限公司
(盖章)

Authorized Signature(s)

1994年6月 日

Computation of Per Share Earnings
(in thousands, except for share data)

	Year Ended December 31,		
	<u>1994</u>	<u>1993</u>	<u>1992</u>
Primary Earning Net income	<u>\$ 17.160</u>	<u>\$ 10.077</u>	<u>\$ 1.712</u>
Weighted average number of common shares outstanding (1)	<u>21,308,000</u>	<u>19,696,000</u>	<u>18,728,000</u>
Primary earnings per common share	<u>\$ 0.81</u>	<u>\$ 0.51</u>	<u>\$ 0.09</u>
Fully diluted (2)			
Net income	<u>\$ 17.160</u>	<u>\$ 10.077</u>	<u>\$ 1.712</u>
Weighted average number of common shares outstanding	<u>21,308,000</u>	<u>19,696,000</u>	<u>18,728,000</u>
Assuming conversion of share options under the employment agreement and Share Option Plan	<u>230,706</u>	<u>262,739</u>	<u>262,739</u>
	<u>21,538,706</u>	<u>19,958,739</u>	<u>18,990,739</u>
Earnings per average number of shares outstanding and common stock equivalents	<u>\$ 0.80</u>	<u>\$ 0.50</u>	<u>\$ 0.09</u>

- (1) Adjusted to reflect the 1994 1000-for-one stock split.
- (2) This calculation is submitted in accordance with Regulation S-K Item 601(b)(ii) footnote 2 although not required by footnote 2 to paragraph 14 of APB No. 15 because it results in dilution of less than 3%.

		Share Options			Common Share Equivalents
Granted		188,000	376,000	735,000	
Date		12/13/93	12/13/93	06/27/94	
Price		0 57	8 53	8 50	
Quarter 1					
Assumed price (A)	11				
Cash on issue (B)		107.150@	3,208.032@	N/A	
Shares to be issued		188,000@	376,000@		
Shares to be acquired (B/A)		9.742@	291.639@		
		178,258@	84,361@		262,619@
Quarter 2					
Assumed price (A)	11				
Cash on issue (B)		107.160@	3,208.032@	N/A	
Shares to be issued		188,000@	376,000@		
Shares to be acquired (B/A)		9.742@	291.639@		
		178,258@	84,361@		262,619@
Quarter 3					
Market value					
July	8.491				
June	9.114				
May	10.188				
Average price (A)	9.264@				
Cash on issue (B)		107.160@	3,208.032@	6,247.500@	
Shares to be issued		188,000@	376,000@	735,000@	
Shares to be acquired (B/A)		11.567@	346.278@	674.360@	
		176,433@	29,722@	60,640	
Pro-rata		1	1@	0 370	
		176,433@	29,722@	22,410@	228,566@
Quarter 4					
Market value					
October	5.506				
September	5.920				
August	5.514				
Average Price (A)	5.647@				
Cash on issue (B)		107.160@	0@	0@	
Shares to be issued		188,000@	0@	0@	
Shares to be acquired (B/A)		18.978@	0@	0@	
		169,022@	0@	0@	169,022@
Total					922,826@
Average					230.706@

Subsidiaries of Radica Games Limited

<u>Name of Subsidiary</u>	<u>State or Country in Which Organized</u>
United States	
Radica Enterprises Ltd - Operates as Radica USA Ltd	Nevada
Disc., Inc.	Nevada
International	
Radica Limited - Radica China Ltd	Hong Kong British Virgin Islands
- Livermeade - RadMex	Hong Kong Mexico
Radica Sales HK Ltd	Hong Kong

INDEPENDENT AUDITORS' CONSENT

Board of Directors
Radica Games Limited

We hereby consent to the incorporation by reference of our report dated December 16, 1994 appearing in this Annual Report on Form 20-F of Radica Games Limited for the year ended October 31, 1994 in the Registration Statement on Form S-8 (33-86960) for Radica Games Limited Share Options.

Deloitte Touche Tohmatsu

Hong Kong
January 27, 1995

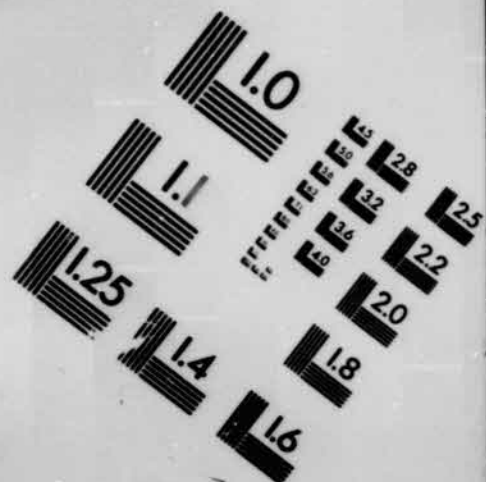
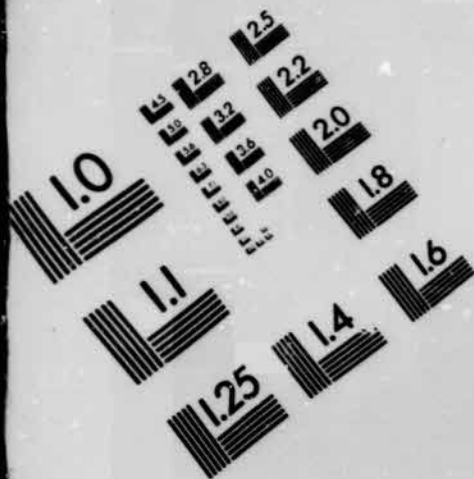
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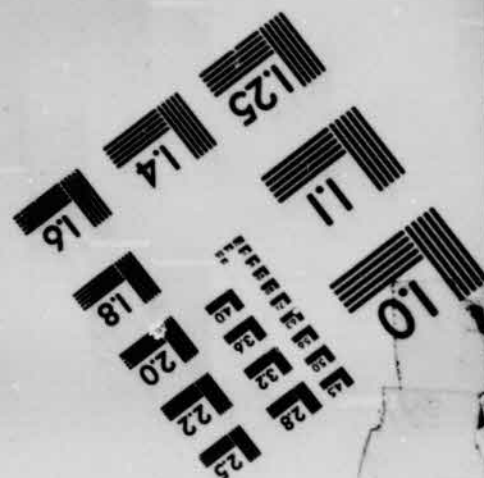
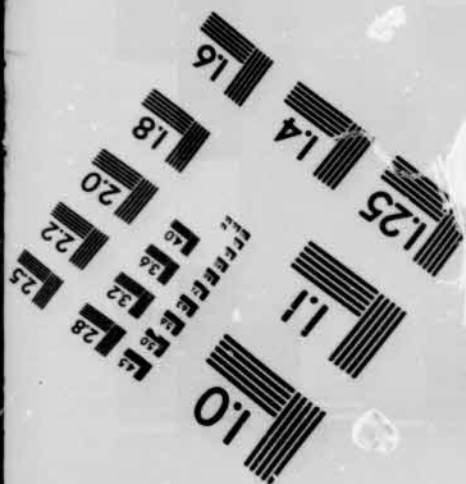
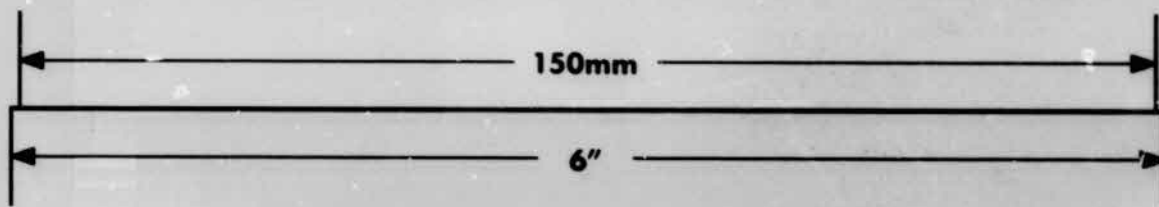
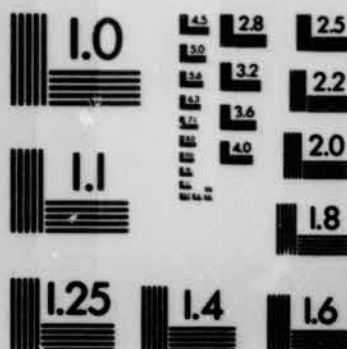
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IMAGE EVALUATION
TEST TARGET (MT-3)



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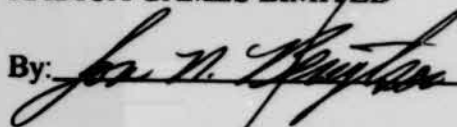
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POWER OF ATTORNEY

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 23rd day of January, 1995.

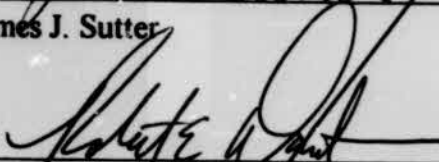
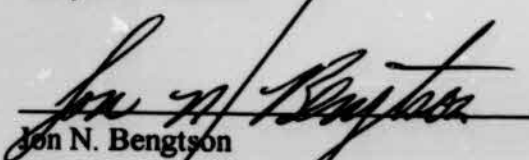
RADICA GAMES LIMITED

By: 

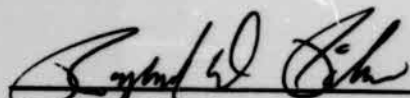
Jon N. Bengtson
Director, Executive Vice President
and Chief Financial Officer

Each person whose signature appears below hereby authorizes Robert E. Davids and Jon N. Bengtson, or either of them, as attorneys-in-fact to sign on his behalf, individually, and in each capacity stated below, and to file all amendments and/or supplements to this Annual Report on Form 20-F.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
 James J. Sutter	Chairman, Board of Directors and Executive Vice President	
 Robert E. Davids	Director, President and Chief Executive Officer	
 Jon N. Bengtson	Director, Executive Vice President and Chief Financial Officer	
 David C. W. Howell	Director, Vice President and Chief Accounting Officer	

SIGNATURES**TITLE****DATE**

Lam Sui Wing**Director, Vice President**
Raymond D. Pike**Director****January 27, 1995**

Robert Townsend**Director**

Calvin A. H. Waller**Director**

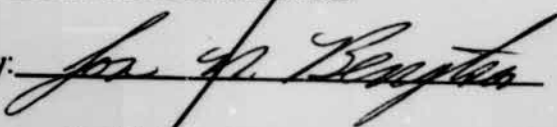
James O'Toole**Director**

POWER OF ATTORNEY

SIGNATURES

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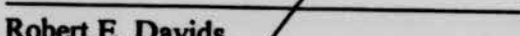
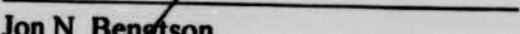
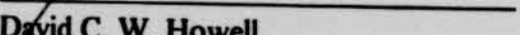
RADICA GAMES LIMITED

By: 

Jon N. Bengtson
Director, Executive Vice President
and Chief Financial Officer

Each person whose signature appears below hereby authorizes Robert E. Davids and Jon N. Bengtson, or either of them, as attorneys-in-fact to sign on his behalf, individually, and in each capacity stated below, and to file all amendments and/or supplements to this Annual Report on Form 20-F.

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 Robert E. Davids	Director, President and Chief Executive Officer	
 Jon N. Bengtson	Director, Executive Vice President and Chief Financial Officer	
 David C. W. Howell	Director, Vice President and Chief Accounting Officer	

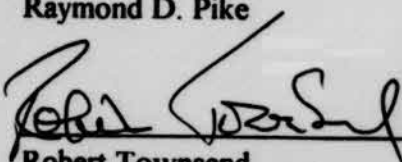
SIGNATURES**TITLE****DATE**

Lam Sui Wing

Director, Vice President

Raymond D. Pike

Director



Robert Townsend

Director

January 27, 1995

Calvin A. H. Waller

Director

James O'Toole

Director

SIGNATURES**TITLE****DATE**

Lam Sui Wing

Director, Vice President

Raymond D. Pike

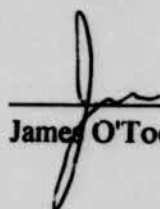
Director

Robert Townsend

Director

Calvin A. H. Waller

Director

 O'Toole

James O'Toole

Director

27 Jan 1995

EXHIBIT INDEX

- * 3.1 Memorandum of Association
- * 3.2 Bye-Laws
- * 3.3 Certificate of Incorporation on Change of Name
- * 4.1 Specimen Certificate for the Shares of Common Stock
- * 10.1 Processing Agreement, dated December 4, 1991, between Radica HK and foreign Economic Development Co. of Humen Town, Dongguan, relating to the Tai Ping Factory
- * 10.2 Processing Agreement, dated December 27, 1993, between Radica HK and Foreign Economic Development Co. of Humen Town, Dongguan
- * 10.3 Original Product Manufacturing Agreement, dated January 12, 1994, among the Company and International Game Technology and the other parties named therein
- * 10.4 Shareholders Agreement, dated January 12, 1994, among the Company and the shareholders parties thereto
- * 10.5 Amendment to Shareholders Agreement, dated as of February 16, 1994, among the Company and the shareholders party thereto.
- * 10.6 Form of Employment Agreement, between Radica Games Limited and Robert E. Davids
- * 10.7 Form of Employment Agreement, between Radica Games Limited and James J. Sutter
- * 10.8 Employment Agreement, dated as of November 28, 1993, among Radica HK, Radica USA and Jon N. Bengtson
- * 10.8(a) Form of Amendment to Employment Agreement among Radica Games Limited, Radica HK, Radica USA and Jon N. Bengtson.
- * 10.9 1994 Stock Option Plan
- * 10.10 Share Purchase Agreement, dated as of January 12, 1994, among the sellers named therein, the Company and International Game Technology
- * 10.11 Amendment to Share Purchase Agreement, dated as of February 16, 1994, among the Sellers named therein, the Company and International Game Technology
- * 10.12 Stock Option Agreement, dated as of January 12, 1994, between the stockholders named therein and International Game Technology
- * 10.13 Deed of Indemnity, dated February 16, 1994, between the covenantors named therein and the Company
- * 10.14 Form of Common Stock Purchase Agreement, for Radica USA, between Radica Games Limited and the Sellers named therein

*10.15 Form of Common Stock Purchase Agreement, for Disc, Inc., between Radica Games Limited and the Sellers named therein

10.16 Cooperative Joint Venture Contract of D.G. Radica Games Manufacturing Co., Ltd., dated June 24, 1994

11.1 Statement re Computation of Per Share Earnings

21.1 List of subsidiaries

23.1 Consent of Deloitte Touche Tohmatsu

ps. 63

ps. 107

ps. 109

ps. 110

* Incorporated by reference to Registration Statement on Form F-1, File No. 33-75794 filed by the Registrant.

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BETHESDA MD 20816
Tel - 301-951-1300**

**EXHIBITS
FOLLOW**

**COOPERATIVE JOINT VENTURE CONTRACT OF
D.C. RADICA GAMES MANUFACTURING CO. LTD.**

For the purpose of developing mutual economic cooperations, Hu Men Longyuan Township Enterprise Development Company of Dongguan City (hereinafter referred to as Party A) and Radica China Company Limited, a British Virgin Islands Company (hereinafter referred to as Party B), adhering to the principle of equality and mutual benefit and through friendly consultations, and with a view to cooperative management of the games manufacturing business, agree to enter this contract (this "Contract") with the terms as set forth below on this 24th Day of June 1994 in Dongguan City.

Chapter One General Principles

Article 1. Party A, Hu Men Dongguan Township Enterprise Development Company of Dongguan City is duly registered with the Administrative Bureau of Industry and Commerce of Dongguan City, with its legal address at Hu Men Town Longyuan Management Area of Dongguan City, Guangdong Province of the People's Republic of China (the "PRC").

Legal Representative: Name: Zhang Runsheng
Position: Manager
Nationality: Chinese

Article 2. Party B, Radica China Company Limited is duly registered at British Virgin Islands, with its legal address at Omar Hodge Building, Wickhams Cay 1, P.O. Box 362, Road Town, Tortola, British Virgin Islands, and its correspondence address at Suite R, 6/F., 2-12 Au Pui Wan Street, Fo Tan, Shatin, N.T., Hong Kong.

Legal Representative: Name: David C.W. Howell
Position: Finance Director
Nationality: British

Article 3. Party A and Party B (the "Parties" or "Both Parties") agree to establish at Hu Men Town Longyuan Management Area of Dongguan City, Guangdong Province a cooperative joint venture with the Chinese name 东莞市东城镇虎门镇龙园管理区东联利达游戏制造有限公司 and English name "Dongguan Radica Games Manufacturing Co., Ltd." (the "Company"). The cooperative business scope of the Cooperative Joint Venture is to manufacture and to sell games products.

Article 4. Both Parties agree that the term of the Company shall be thirty (30) years commencing from the date of issuance of the Company's business

licence.

Article 5. The Company shall be a Chinese legal person. All activities of the Company shall be governed by the laws, rules and relevant regulations of the PRC.

Chapter Two Cooperative Conditions and Profit Allocation

Article 6. Party A shall provide twenty thousand (20,000) square metres of land for Party B's use. Party B shall pay to Party A four million Renminbi (RMB4,000,000.00) for the use of land as provided by Party A.

Article 7. Party B shall invest five million U.S. Dollars (US\$5,000,000.00) without any interests thereon, one million and nine hundred thousand U.S. Dollars (US\$1,900,000.00) of which shall go to equipment capital, seven hundred and fifty thousand U.S. Dollars (US\$750,000.00) of which shall go to working capital, and two million three hundred and fifty thousand U.S. Dollars (US\$2,350,000.00) of which shall go to the fees for premises and civil constructions.

Article 8. The total amount of the investment of the Company shall be five million U.S. Dollars (US\$5,000,000.00). The registered capital of the Company shall be five million U.S. Dollars (US\$5,000,000.00).

Article 9. The Company shall, after the investment as contributed by Party B has been verified by a Chinese registered accountant, provide a certificate of verification to Party B. The capitals contributed by Party B for the acquisition of equipment, the factory buildings and civil construction may effect a withdrawal of annual depreciation subject to the approval from a relevant governmental financial and taxation department of the PRC and may be returned to Party B by the Company prior to the allocation of profits.

Article 10. Party B shall be responsible for operation and management of the Company. Should the Company incur any losses, Party A shall not bear any economic liabilities. In any event, Party B shall guarantee an annual payment to Party A of eight hundred thousand Renminbi (RMB800,000.00), which shall be increased consecutively by twenty percent (20%) every three years commencing from the fourth year. The Company shall, after the payment of income tax separately by each of the Parties, withdraw the "three funds" pursuant to

the state and local stipulations of the PRC.

Article 11.

All Party B's income (including the profits and the withdrawal of the investment by the means of depreciation and amortisation) as obtained pursuant to the stipulations of this Contract shall, after deductions of the related taxes payable to the government of the PRC, be fully remitted to Party B as it may be necessary through the Bank of China Dongguan Branch into the bank account as designated by Party B in accordance with Provisional Regulations for Exchange Control of the People's Republic of China. At the expiration of the cooperative term, all of fixed assets of the Company shall be transferred to Party A without further fixing the prices therefor. In the case the Party B has not recovered its contribution prior and close to the expiration of this contract, the cooperation term may be extended based on the negotiation and agreement made by the Parties, subject to the prior approval of the original examination and approval authorities.

Chapter Three Production and Sales

Article 12.

The Company shall engage in games production, with the annual capacity of producing approximately twenty-two million (22,000,000) units of the games. The products as produced thereby shall be sold on the markets both within and outside the PRC, with twenty percent (20%) of domestic sales and eighty percent (80%) of overseas sales. The Company shall be responsible for such sales the aforementioned. The domestic sales shall comply with the relevant stipulations of the government of the PRC. All products shall be sold on exclusive consignment at a fixed price. The principle of price fixing shall be ex factory price based on production costs plus reasonable amount of profits, and shall be discussed by the board of directors semi-annually for the purpose of proper adjustment of the selling price. The Company may, according to the development of production in the Company and to the demands of the markets, and subject to approval by the original examination and approval authority, increase its annual production output correspondingly.

Article 13.

In purchases of equipment, raw materials, components and parts, etc., the Company shall give the first priority to the purchases within the PRC under the same purchase condition and shall, in case imports are required, organize

such importation or entrust Party B to conduct such purchase abroad subject to the mutual agreement on the prices.

Article 14.

In the event that the Company entrusts Party B to purchase imported equipments, Party B shall send personnel to show how to fix and install such equipments with a view to procuring the products as produced by the Company to meet the quality requirements.

Chapter Four Responsibilities of the Parties

Article 15.

Both Parties shall, upon the approval for the establishment of the Company, be responsible for the following matters (including the preparatory construction phases):

Party A shall be responsible for:

- (1) applying to the relevant departments in the PRC for approval, registration, business licence and other matters concerning the establishment of the Company;
- (2) assisting the Company in recruiting management personnel, technical personnel and workers;
- (3) assisting the Company in purchasing on the markets within the PRC of fuel and oil materials for the production purpose and in liaising for and putting into place basic facilities for such things as water supply and electricity supply; and
- (4) handling other matters entrusted by the Company.

Party B shall be responsible for:

- (1) making its capital contribution in the schedule and in the manner as stipulated by this Contract;
- (2) purchasing, as entrusted by the Company, on the markets outside the PRC, all equipments, parts, components and subassemblies, and packing materials necessary for the production;
- (3) arranging for the training of technical personnel and workers of the Company;
- (4) providing directions in respect of

- installing, testing and trial production;
- (5) providing production techniques to ensure that the quality of the products meet all the requirements;
 - (6) introducing information relating to trends on overseas markets and advanced management and techniques;
 - (7) organizing the design and construction of the premises of the Company;
 - (8) assisting the Company in selling its products on overseas markets; and
 - (9) handling other matters as entrusted by the Company.

Chapter Five Management Office of the Company

Article 16. The Company shall form a board of directors (the "Board of Directors") as to be composed of directors appointed by Party A and Party B. The Board of Directors shall be the highest authority of the Company and shall consist of seven (7) directors ("Directors"), of which two shall be appointed by Party A and five (5) of which shall be appointed by Party B. One chairman (the "Chairman") of the Board of Directors shall be appointed by Party B and one vice chairman (the "Vice Chairman") of the Board of Directors shall be appointed by Party A. The term of office for the Chairman, the Vice Chairman and the Directors shall be four (4) years and may be renewable if reappointed by each appointing party and shall be deemed to be renewed in the absence of reappointment at the expiration of the office term. The authorities and powers of the Board of Directors shall be set forth in detail in the attached articles of association (the "Articles of Association") of the Company.

Article 17. The office of one general manager (the "General Manager") and one deputy general manager (the "Deputy General Manager") shall be invited by the Board of Directors. The responsibility of the General Manager and the Deputy General Manager is to carry out the decisions of the Board of Directors. The authorities and powers of the General Manager and the Deputy General Manager shall be stipulated in the Articles of Association. The General Manager serving for the first term of office shall be appointed by Party B and the Deputy General Manager serving for the

first term of office shall be appointed by Party A. In the case of graft or serious dereliction of duty on the part of the General Manager and the Deputy General Manager, the Board of Directors shall have the power to dismiss them at any time.

Chapter Six Salaries and Welfare

Article 18. The standards of salaries, position allowances and bonuses, etc. of the management personnel of the Company shall, in accordance with the relevant stipulations of the government of the PRC and with reference to the existing practice of other joint venture companies, and in accordance with actual price standard of the goods in Dongguan City, be determined by the Board of Directors through consultations, and shall be increased annually by a reasonable margin.

Chapter Seven Finance, Accounting and Foreign Exchange Control

Article 19. The Company is an economic enterprise, effecting an independent finance and accounting system. Its accounting system shall comply with the relevant stipulations of the financial and taxation department of the PRC and shall adopt Renminbi as the standard accounting currency.

Article 20. The fiscal year of the Company shall commence on November 1 and end on October 31 of each calendar year. All vouchers, account books, statistic statements and reports of the Company shall be kept both in Chinese language and English language. Prior to the commencement of production, the Company shall invite a Chinese registered accountant to verify the capital contributions and shall subsequently provide to each Party hereto a verification certificate.

Article 21. Financial auditing and examination of the Company shall be carried out by an accountant registered in the PRC and reports thereon shall be submitted to the Board of Directors and the General Manager. In case Party B considers it necessary to employ a foreign auditor registered in other country or areas to undertake annual financial auditing and examination, Party A shall give its consent. All expenses thereof shall be borne by Party B.

Article 22. In the first three months of each fiscal year, the General Manager shall organize to prepare previous year's balance sheet, profit and loss

accounts and profit allocation plan and submit them to the board of directors for examination and approval.

Article 23. The Company's expenses on all equipments and raw materials are valid only after official invoices and receipts have been obtained thereto. The invoices and receipts from abroad or Hong Kong and Macau areas must be attached with declaration forms and tariff rates of the customs of the PRC.

Article 24. The Company may apply to the Bank of China Dongguan Branch for opening accounts both in Renminbi and in foreign currency. All incomes and expenses of the Company shall be handled and supervised by the bank the aforesaid. All incomes as obtained by Party B pursuant to this Contract shall be remitted, as the case may be, through the above mentioned bank with which the accounts of the Company have been opened.

Article 25. Transactions of the Company shall, during the ordinary course of business, be recorded separately in Renminbi and foreign currency. The conversion of Renminbi into other currency shall be in accordance with the exchange rate of the first converting day of each month published by the State Administration of Exchange Control.

Article 26. The salaries and other lawful income earned by foreign technical personnel and senior staff of the Company as appointed and recruited by Party B shall, after deduction of living expenses incurred within the PRC, be remitted outside the PRC in accordance with relevant foreign exchange control regulations of the PRC.

Chapter Eight Registration, Taxation and Insurance

Article 27. The Company shall process the registration with, and apply for business license before the administrative department of industry and commerce of the PRC, and shall register with the local taxation department for tax matters. The Company shall pay taxes in accordance with the relevant tax law and regulation of the government of the PRC.

Article 28. All insurances of the Company shall be affected with Dongguan Insurance Branch Company of the People's Insurance Company of China.

Chapter Nine Customs of Imported Goods

Article 29. Both importation of the equipments, raw materials

and packing materials of the Company and exportation of the products as produced shall be effected through Taiping and Wanjin Customs.

Chapter Ten Obligation of Performing this Contract

Article 30. The capital contribution as subscribed by Party B shall be made in full within six (6) months commencing from the date on which the business licence of the Company is issued. Failure of making such contribution in the manner and in accordance with the time schedule as set forth herein and lack of sufficient or practical reasons shall be deemed as a breach and an automatic termination of this Contract. In case there exist some sufficient and practical reasons, the application for deferral of such contribution shall be limited only to one month. Failure of the contribution after such deferral period shall be deemed a breach and an automatic termination of the Company. Upon the occurrence of the breach the aforementioned, the other party shall be entitled to apply unilaterally for termination of the Company and to claim damages from the breaching party.

Article 31. Both Parties shall, upon the approval of this Contract by the pertinent governmental agency of the PRC, fully comply with this Contract. No Party hereto shall terminate this Contract at its own discretion. Any Party hereto demanding a termination prior to the expiration under special conditions shall so make such demand, commence the processing of termination after an agreement by both Parties has been obtained, and submit to the original examination and approval authority for approval. Should termination by one Party hereto at its own discretion or failure of one Party hereto to comply with this Contract cause the losses to other Party, the breaching party shall be liable for payment of damages to the other party incurring the economic losses arising out of such breaching activities.

Chapter Eleven Force Majeure

Article 32. Should either of the Parties hereto be prevented from executing this Contract by force majeure, such as earthquake, typhoon, fire and war and other unforeseen events, and their happening and consequences cannot be prevented and are unavoidable, the prevented party shall notify the other party through the fastest means of telecommunication without any delay, and within

fifteen (15) days thereafter provide the detailed information of the events and valid document for evidence (document issued by the relevant public notary) for explaining the reason of its inability to execute or delay the execution of all or part of this Contract. Both Parties shall, through consultations, decide whether to terminate the contract or to exempt the part of obligations for implementation of this Contract or whether to delay the execution of this Contract according to the effects of the events on the performance of this Contract.

Chapter Twelve Product Trademark

Article 33. The trademark of the Company for the products sold both domestically and abroad shall be decided through mutual consultations, but must comply with the principles of the relevant selling countries (areas) in relation to application and registration requirements.

Chapter Thirteen Arbitration

Article 34. Any disputes arising out of the execution of, or in connection with this Contract during the term of this Contract shall be settled based upon the spirit of friendly cooperation and through friendly consultations. In case no settlement can be reached through consultations, the disputes shall be submitted to the China International Economic and Trade Arbitration Commission for arbitration in accordance with its rules of procedure. The arbitral award is final and binding upon both Parties.

Chapter Fourteen Miscellaneous

Article 35. This Contract shall, after the signing by both Parties, come into force from the date of approval by the relevant governmental authority of the PRC.

Article 36. In case some matters are not included in this Contract, corrections or amendments may be made through mutual consultations and shall be submitted to the original examination and approval authority for approval and be attached as appendices hereto.

IN WITNESS WHEREOF both Parties hereto have caused this Contract to be executed by each of their duly authorized representative on this 24th day of June 1994 at Dongguan City, Guangdong

Province of the PRC.

Party A:

Hu Men Longyuan Township Enterprise Development Company of Dongguan City

Legal address: Hu Men Town Longyuan Management Area of Dongguan City

Telephone Number: 551178

Legal Representative: Zhang Runshang
(Signature)

Party B:

Radica China Company Limited (British Virgin Islands Company)

Legal Address: Omar Hodge Building, Wickhams Cay 1, P.O. Box 362, Road Town, Tortola, British Virgin Islands

Telephone Number: (852) 6932238

Legal Representative: David C. W. Howell
(Signature)

**ARTICLES OF ASSOCIATION FOR DONGGUAN RADICA GAMES
MANUFACTURING COMPANY LIMITED**

For the purpose of developing mutual economic cooperations, Hu Men Longyuan Township Enterprise Development Company of Dongguan City (hereinafter referred to as Party A) and Radica China Company Limited, a British Virgin Islands Company (hereinafter referred to as Party B), adhering to the principle of equality and mutual benefit and through friendly consultations, and with a view to cooperative management of the games manufacturing business, agree to enter into these articles of association (the "Articles of Association") in addition to the cooperative joint venture contract (the "Contract").

Chapter One General Principles

- Article 1.** Dongguan Radica Games Manufacturing Co. Ltd. (the "Company") is an enterprise which is jointly managed by Hu Men Longyuan Township Enterprise Development Company of Dongguan City and Radica China Limited Company and is, by nature, Sino-foreign joint venture enterprise.

Legal Address of the Company: Hu Men Town Longyuan
Management Area of Dongguan City, Guangdong Province

- Article 2.** All activities of the Company shall be governed by the laws, rules and relevant regulations of the People's Republic of China (The "PRC").

- Article 3.** The total amount of investment of the Company shall be five million U.S. Dollars (US\$5,000,000.00) with the registered capital of one million and ninety hundred thousand U.S. Dollars (US\$1,900,000.00) of which shall go to equipment capital, seven hundred and fifty thousand U.S. Dollars (US\$750,000.00) of which shall go to working capital, and two million three hundred and fifty thousand U.S. Dollars (US\$2,350,000.00) shall go to the fees for land use, premises and civil constructions.

Chapter Two Terms, Renewal and Termination of the Contract

- Article 4.** The term of the Company shall be thirty (30) years commencing from the date of the issuance of the business licence.

- Article 5.** Upon the expiration of the Contract, Party A and Party B may, within six (6) months prior to such expiration and upon obtaining a mutual agreement between Party A and Party B, apply with the original examination and approval authority of the PRC for approval of the renewal of the term of the Company.

Article 6. Should one party hereto cause economic losses as a result of breaching the Contract, the breaching party shall be liable for payment of damages.

Article 7. Upon the termination of the Contract, the Company shall, promptly after the completion of all liquidation procedures, report to the original examination and approval authority, process with the original administrative bureau of industry and commerce for cancelling its registration, and submit its business licence.

Chapter Three Business Objective and Production Scale

Article 8. The business objective of the Company is to set up an enterprise which is able to possess advanced technologies and equipments and to produce games products in excellent quality and being competitive on international markets.

Article 9. The Company shall manufacture annually twenty-two million (22,000,000) units of the games representing annual production value of fifty-nine million eight hundred thousand Renminbi (RMB59,800,000.00).

Chapter Four Purchase and Sales

Article 10. In purchases of equipment, raw materials, components and parts, etc., the Company shall give the first priority to the purchases within the PRC under the same purchase condition and shall, in case imports are required, organize such importation or entrust Party B to conduct such purchases abroad subject to the mutual agreement on the prices.

Article 11. Party B shall be responsible for overseas sales of eighty percent (80%) of the games products as produced by the Company and Party A shall be responsible for domestic sales of twenty percent (20%) of the games products as produced thereby.

Chapter Five Board of Directors and Managers

Article 12. A board of directors (the "Board of Directors") composing of seven (7) directors ("Directors") shall be established on the day when the Contract becomes effective. Two (2) Directors shall be appointed by Party A and five (5) Directors shall be appointed by Party B. One chairman (the "Chairman") shall be appointed by Party B and one vice-chairman (the "Vice-Chairman") shall be

appointed by Party A. The term of office for the Chairman, the Vice-Chairman and the Directors shall be four (4) years and may be renewable if reappointed by each appointing party and shall be deemed to be renewed in the absence of reappointment at the expiration of the office term. The Board of Directors shall be the highest authority of the Company and shall, in accordance with the laws, rules and relevant regulations of the PRC, make the rules for the Company and the principles for the staff and workers, and determine, with regard to the Company, the management policies, the development plans, the product sales price, examination of the financial budgets and of final accounting of revenue and expenditure, profit allocations, arrangement and dismissal of the personnel, salaries and welfare, and other important matters regarding production management. The Board of Directors shall convene a board meeting semi-annually.

Article 13.

The Company shall establish an institution of the general manager's responsibility under the supervision of the Board of Directors. The Company shall set up one general manager (the "General Manager") and one deputy general manager (the "Deputy General Manager"). The authorities and powers as vested in them is to carry out the decisions of the Board of Directors, to be directly responsible for profits and losses, the making and delivering various plans regarding production and management of the Company, to direct production departments for ensuring the implementation thereof, and to be in charge of supplies of materials and sales of the products.

Chapter Six Finance, Accounting and Tax

Article 14.

The Company is an economic enterprise, effecting an independent finance and accounting system. Its accounting system shall comply with the relevant stipulations of the financial and taxation department of the PRC. The fiscal years of the Company shall commence on November 1 and end on October 31 of each calendar year. The accounting of the Company shall adopt the internationally used accrual basis and debit and credit accounting system. All self-made vouchers, account books, financial statements of the Company shall be kept in Chinese language or both in Chinese language and English language.

Article 15.

The Company may apply to the Bank of China Dongguan Branch for opening accounts both in

Renminbi and in foreign currency. Transactions of the Company shall, during the ordinary course of business, be recorded separately in Renminbi and foreign currency. The conversion of Renminbi into other currency shall be in accordance with the exchange rate of the first concerting day of each month published by the State Administration of Exchange Control of the PRC. The Company shall adopt Renminbi as the standard accounting currency.

Article 16. The Company may, upon the approval by the Board of Directors, apply to the Bank of China for short-term loans. Should the Company apply to a foreign bank for loans, Party B shall issue its letter of guarantee.

Article 17. Party A shall not participate in the profit allocation of the Company, but shall receive from the Company and commencing from the first year, eight hundred thousand Renminbi (RMB\$00,000.00) as the management fee, which shall be increased consecutively by twenty percent (20%) every three years commencing from the fourth year.

Article 18. Each of the Parties of the Company shall separately pay income tax on the pre-tax profits as allocated by the Company, and shall, in accordance with the relevant stipulations of the government of the PRC, withdraw "three funds" and put them into unitary use for the Company.

Article 19. The Company shall, pursuant to the relevant tax laws of the PRC, pay taxes during its course of economic activities and may apply for tax deduction, tax exemption and any other tax preferential treatments.

Article 20. The Company shall, in fixed period of time, report to the relevant authorities in relation to, and submit to the relevant authorities its management statements such as balance sheets and income statements and shall be subject to their supervision.

Chapter Seven Recruitment and Dismissal of Staff and Workers

Article 21. The issues of recruitment and dismissal of the staff and workers (the "Staff and Workers"), and of labour salaries shall be settled pursuant to the relevant stipulations of the PRC and the labour contracts as entered into between the Company and the trade union (to be defined hereinafter).

Article 22.

The Staff and Workers who violate or derogate from the regulations or rules or labour disciplines of the Company and thus cause certain adverse effects shall, in accordance with the stipulations in the labour contract, and depending upon the extent or the degree of seriousness of such violation or derogation, be given such punitive treatments as warning, demerit record, salary reduction or even dismissal.

Article 23.

The Company may dismiss those Staff and Workers who become surplus to the requirements due to the changes in production and technical conditions, and, who, after undergoing certain skill retraining, still cannot be transferred to or cannot fit other positions, provided that such dismissal shall be conducted in accordance with the stipulations of the labour contracts, and shall be effected with certain compensation by the Company.

Article 24.

The Staff and Workers may, pursuant the labour contracts, resign their jobs. The Company shall, however, provide no compensation therefor.

Those Staff and Workers who have been trained by the Company and thus obtained special skill shall work for the Company for three (3) years and shall refund the Company their training fees as paid by the Company if they work for the Company less than three (3) years.

Article 25.

With regard to any dismissal or punishment of the Staff and Workers of the Company, the trade union is entitled to disagreement and thus to send its representatives to the Company for settlement through consultations where it considers such dismissal or punishment is unfair. In case a consensus fails to be reached through such consultations, one party or both parties to the dispute may apply to the superior authority of labour administration for arbitration. Should one party not agree with the award entered into, it shall file a litigation before a relevant People's Court and the litigation fees thereof shall be borne by the losing party.

Chapter Eight Salaries and Welfare of Staff and Workers

Article 26.

The salaries and welfare of the Staff and Workers of the Company shall be determined according to the relevant stipulations of the government of the PRC.

Article 27. The Company shall, in relation to the Staff and Workers thereof, adopt a periodical technical examination and promotion system, and shall apply a salary payment system computed on the basis of hours of work done and shall, with the development of the production, raise the standards of salaries and welfare correspondingly. The Company shall provide special awards to those who have made significant contributions thereto.

Article 28. The Company shall abide by the relevant regulations of the government or the PRC on labour protection, and shall guarantee safe and civilised production in respect of which the government of the PRC has the authority to carry out its supervision and inspection.

Chapter Nine Trade Union

Article 29. The Company shall, in accordance with the Law of Trade Union of the PRC, establish a trade union (the "Trade Union"), the task of which is to: represent the Staff and Workers to sign collective labour contracts with the Company, protect legitimate rights and interest of the Staff and Workers, organize and educate the Staff and Worker to perform the contracts and to obey the disciplines, to learn skills and to finish the production assignments, and disciplines those who violated the laws of the PRC or factory rules promptly.

Article 30. The Trade Union of the Company shall participate in the mediation of any possible disputes arising between the Staff and Workers and the Company.

Article 31. The Company shall, in accordance with the Law of Trade Union of the PRC, set up a trade union fund in the amount equal to two percent (2%) of the total actual salaries of the Staff and Workers of the Company, and the use of which shall be supervised by the Trade Union for the purposes of the collective welfare fees of, the entertainment and sports activities of, and improvement of material and cultural life of the Staff and Workers.

Article 32. Personnel in charge of the Trade Union of the Company may, if necessary, attend the meetings of the Board of Directors, to reflect the opinions and requirements of the Staff and Workers as being represented, take part in the discussion of the issues in relation to production, operation, salaries, welfare and labour protection without

having voting rights.

Chapter Ten Miscellaneous

Article 33. Should any stipulations in these Articles of Association contravene the relevant laws and regulations of the PRC, the latter shall prevail. Should there be anything imperfectly subscribed or omitted herein, the Board of Directors of the Company shall modify or amend these Articles of Association and shall submit them to the original examination and approval for approval.

Article 34. These Articles of Association shall, after agreed upon by Party A and Party B, take effect from the date on which approval is granted by the relevant authority of the PRC.

IN WITNESS WHEREOF both Party A and Party B have caused these Articles of Association to be executed by the representative duly authorized by both Parties in June 1994 at Dongguan City, Guangdong Province of the PRC.

Party A:
Hu Men Longyuan Township Enterprise Development Company of Dongguan City

Legal Address: Hu Men Town Longyuan Management Area of Dongguan City

Telephone Number:

Legal Representative:

Party B:
Radica China Company Limited (British Virgin Islands Company)

Legal Address: Omar Hodge Building, Wickhams Cay 1, P.O. Box 362, Road Town, Tortola, British Virgin Islands

Telephone Number:

Legal Representative:

東莞市虎門鎮對外經濟辦公室

Foreign Economic Affairs Office of
Humen Town Dongguan City

东虎外办引字[1994]086号

关于合作经营东莞乐迪卡游戏机制造厂 有限公司合同、章程的批复

东莞市虎门龙眼加工办：

报来“东虎(龙眼)外引字(1994)05号”文悉。经研究，同意东莞市虎门龙眼乡镇企业发展公司(下称甲方)与(英属维尔京群岛)均景中国有限公司(下称乙方)合作经营“东莞乐迪卡游戏机制造厂有限公司”(下称合作企业)，现就该项目主要内容批复如下：

一、合作企业投资总额500万美元(注册资本同)，包括进口设备价款190万美元，流动资金75万美元，土地使用费及厂房土建费235万美元。设备价款、流动资金、土地使用费及厂房土建费均由乙方无息提供。甲方有偿提供土地20000平方米给乙方使用，乙方一次性付给甲方土地使用费400万元人民币。乙方提供的设备资金及厂房土地费、在经中国政府有关财税部门批准后可提取年折旧费，在利润分配前由合作企业归还乙方。合作期满后，一切固定资产不再作价，归甲方所有。

二、合作企业生产游戏机产品，年产量为2200万台。产品分内外销两种，内销占20%，外销占80%，概由合作企业负责。全部产品定价包销，销售价格由董事会商定。产品的内销，需符合中国政府的有关规定。

三、合作企业经营期限为三十年，自营业执照签发之日起计。合作企业法定地址设在东莞市虎门镇龙眼管理区。

四、同意合作企业经营管理由乙方负责，如发生亏损，甲方不承担任何经济责任，同时在任何情况下，乙方保证每年上缴给甲方收益80万元人民币，并从第四年起按每三年递增20%的幅度支付。

五、合作企业为独立核算经济实体，可向东莞市办理外汇结算业务的有关银行申请开办外币帐户和人民币帐户。

六、合作企业机构设置，甲乙双方责任、出资期限等按合同规定执行；有关注册登记、外汇管理、验资、税收、保险、仲裁等，按我国政府有关规定办理。

七、合作企业生产所需物资进口时，除国家、省控制进口的外，凭盖有我办公章的物资清单，报请海关验放。

此 复



抄 报：省经贸委、省工商局、市府办、市外经贸委、太平海关、
市计委、财局、工商局、税局、外管局、劳动局、中行
抄 送：保险公司、会计师事务所

**合作经营东莞乐迪卡游戏机
制造厂有限公司**

合

同

**东莞市虎门龙眼乡镇企业发展公司
(英属维尔京群岛)均景中国有限公司**

一九九四年六月二十四日

合作合营东莞乐迪卡游戏机制造厂有限公司

合 同

为了发展双方经济合作，东莞市虎门龙眼乡镇企业发展公司（下称甲方）同英属维尔京群岛（也译英属处女岛）均景中国有限公司（下称乙方）本着平等互利原则，经过充分友好协商，就合作经营游戏机制造业务，一九九四年六月十日在东莞市签订如下合同：

一、总 则

第一条：甲方：东莞市虎门龙眼乡镇企业发展公司，在东莞市工商局登记注册，其法定地址为：东莞市虎门镇龙眼管理区；法定代表姓名：张润森；职务：经理；国籍：中国。

第二条：乙方：均景中国有限公司。在英属维尔京群岛（即处女岛）登记注册，其法定地址为：Omar Hodge Building, Wickhams Cay 1, P.O. Box 362, Road Town, Tortola, British Virgin Islands, 其通讯地址为：Suite R-6/F1-2-12 Au Pui Man Street, Fo Tan, Shatin, N.T., Hong Kong.（香港新界火炭坳背街2-12号威力工业中心6幢R）。其法定代表姓名：David C.W. Howell. 职务：董事长，国籍：英国。

第三条：甲乙双方同意在广东省东莞市虎门镇龙眼管理区设立合作企业，定名为：东莞乐迪卡游戏机制造厂有限公司。英文：DONGGUAN RADICA GAMES MANUFACTORY CO., LTD.（下称合作企业）。合作经营范围为生产和销售游戏产品。

第四条：双方商定合作期限为三十年，自合作企业营业执照签发之日起计。

第五条：合作企业具有中华人民共和国法人的地位，其一切活动必须遵守中华人民共和国的法律、法令和有关条例规定。

第
给甲方
集
流动资金
集
元。

第
据此向
国政府
还乙方
集
经济费
并从集
税后，
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回的投
华人民
乙方推
不再作
双方协

集
外销两
销需符
加合理
随着合
产量。

二、合作条件及利润分配

第六条：甲方提供土地20000平方米给乙方使用，乙方一次性付给甲方土地使用费人民币400万元正。

第七条：乙方无息投资500万美元。其中设备资金190万美元，流动资金75万美元，土地使用费及厂房土建费共235万美元。

第八条：合作企业投资总额为500万美元。注册资本为500万美元。

第九条：乙方投资额经在中国注册的会计师进行验资后，由合作企业据此向乙方发给投资证明书。乙方提供的设备资金及厂房土建费，在经中国政府有关财税部门批准后可提取年折旧费，在利润分配前由合作企业归还乙方。

第十条：合作企业经营管理由乙方负责，如发生亏损甲方不承担任何经济责任。在任何情况下，乙方保证每年上缴给甲方收益80万元人民币，并从第四年起按每三年递增20%的幅度支付。合作企业在各自缴交所得税后，按国家及地方规定提取“三项基金”。

第十一条：乙方按合同规定的全部所得收入（包括利润和折旧摊销收回的投资额），在减除向中国政府缴纳有关税收后，如需汇出，应按照《中华人民共和国外汇管理暂行条例规定》，通过中国银行东莞分行如数汇出乙方指定的银行帐户内。从合作期满时起，合作企业所有的固定资产全部不再作价，归甲方所有。本合同临近期满时，若乙方尚未能收回投资，经双方协商，可以相应延长合作期限。但须提前报请原审批机关批准。

三、生产与购销

第十二条：合作企业生产游戏机。年产量为2200万台；产品分内外销两种，内销占20%，外销占80%，概由合作企业负责。产品的内销需符合中国政府的有关规定。全部产品定价包销，定价原则以生产成本加合理利润为出厂价，每半年由董事会讨论一次，适当时调整包销价格；随着合作企业的生产发展和市场需求，经原审批部门批准后可相应增加年产量。

称甲
乙方)
子，一

工商局
子：张

文岛)
P.O.

为：
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法定

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RADICA
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第十三条：合作企业所需设备、原辅料、配套件等，在条件许可的情况下，尽先在中国境内购买，确需进口的，可由合作企业在外组织进口或委托乙方在外购买，其价格须经双方认可。

第十四条：由合作企业委托乙方购进的设备，乙方应派人员负责安装和进行生产技术培训，使产品质量符合要求。

四、合作各方和责任

第十五条：合作公司经批准后，甲乙双方应履行下列责任（包括筹建阶段）。

甲方所负的责任：(1)办理为合作公司向中国有关主管部门申请批准登记注册、领取营业执照等事宜；(2)协助合作公司招聘经营管理人员、技术人员和工人；(3)协助合作公司在国内购置生产所需的燃料、油料及解决水电的供应；(4)负责办理合作公司委托的其它事宜。

乙方所负的责任：(1)如期按合同规定出资；(2)负责购买合作公司委托在外购买生产所需的设备零部件以及原辅料和包装物料等事宜；(3)负责培训合作公司的技术人员和工人；(4)负责指导设备的安装、试车、试产工作；(5)负责传授生产技术，抓好产品质量，使产品质量符合要求；(6)负责介绍国外市场动态及先进管理方法；(7)组织合作公司厂房的装修工程设计及施工；(8)负责产品外销；(9)负责办理合作公司委托的其它事宜。

五、企业管理机构

第十六条：合作企业由合作各方派员组成董事会。董事会为合作企业的最高权力机构，由七人组成。其中甲方二人，乙方五人。董事长一人，由乙方委派，副董事长一人，由甲方委派，其余为董事，董事和董事长任期四年。经委派方继续委派可以连任，若任期届满未作继续委派则视同其继续连任。董事会的职权在本合作企业章程内具体规定。

第十七条：由董事会聘请总经理一人，副总经理一人。正副总经理执

行董事会各项决定理由乙方担任，副职的，经董事会会

第十八条：合
中国政府有关规定
物价水平，由董事

第十九条：本
度按中华人民共和国
记帐本位币。

第二十条：合
一止。一切凭证、单
合作企业在投产前，
向各合营者发给投资

第二十一条：合
将结果报告董事会和
审计师对年度财务进
负责。

第二十二条：每
的资产负债表、损益

第二十三条：合
票方为有效。国外或

第二十四条：合
帐户。一切营业开支
规定在合作企业中所
理。

行董事会各项决定，其职权和任期在合作企业章程内规定。第一任正总经理由乙方担任，副总经理由甲方担任；正副总经理如有营私舞弊或严重失职的，经董事会会议决定可随时撤换。

六、工资及福利

第十八条：合作企业管理人员的工资、职务津贴、奖金等标准，根据中国政府有关规定和参与其他合作经营企业现行办法，并按照东莞市实际物价水平，由董事会商定。并每年须合理递增。

七、财务会计及外汇管理

第十九条：本合作企业属中外合作经营独立核算经济实体，其会计制度按中华人民共和国政府财政、税务部门的有关规定办理。并以人民币为记帐本位币。

第二十条：合作企业的会计年度从公历每年十一月一日起至十月三十一止。一切凭证、单据、帐簿、报表用中文书写，亦可同时用英文书写。合作企业在投产前，应聘请在中国注册的会计师进行验资，并由合作企业向各合营者发给投资证明书。

第二十一条：合作企业的财务审计聘请在中国注册的会计师审核，并将结果报告董事会和总经理。如乙方认为需要聘请其他国家（或地区）的审计师对年度财务进行审查，甲方应予以同意，其所需要一切费用由乙方负责。

第二十二条：每一营业年度的头三个月，由总经理组织编制上一年度的资产负债表、损益计算书和利润分配方案，提交董事会会议审查通过。

第二十三条：合作企业的全部设备和原材料费开支，必须取得正式发票方为有效。国外或港澳地区的发票必须附有中国口岸报关单和关税单。

第二十四条：合作企业可向中国银行东莞分行申请开设外汇和人民币帐户。一切营业开支，均通过上述银行管理，并接受其监督。乙方按合同规定在合作企业中获得的一切收入，如需汇出，均需通过上述开户银行办理。

第二十五条：合作企业在平时应以人民币和外币分别记帐，按当天的国家外汇管理局当时公布的外汇牌价作为记帐汇率。

第二十六条：乙方派驻合作企业的技术人员和高级职员工资及合法收入，扣除在中国境内的生活费后，其余要汇出国外，应持外汇管理局有关外汇管理的规定办理。

八、注册、税收、保险

第二十七条：合作企业须向中国工商行政管理部门办理工商登记。领取营业执照。并向所在地税务部门办理税务登记。合作企业应纳的各项税款，均按中国政府有关税法规定办理。

第二十八条：合作企业的各项保险均按中国人民保险公司东莞分公司投保。

九、物资进口口岸

第二十九条：合作企业机器设备、原辅料和包装物料的进口及成品出口，均经太平及文锦渡口岸。

十、违约责任

第三十条：乙方投资额，应在合同批准之日起六个月内缴足。如不能依期缴足，又无充分的实际理由。则视同违约及自愿结束合营；若具备充分的实际理由，可申请延期以一个月为限；若逾期仍未缴足。则视同违约及自愿结束合营。发生上述违约情况时，守约方有权申请单方结束合营，并要求违约赔偿损失。

第三十一条：本合同经中国政府有关部门批准后，双方应严格遵守。任何一方不得擅自终止。若因特殊情况，一方要求提前终止，必须在六个月前提出，经双方同意后，办理终止手续，报请原审批机关批准。如一方擅自终止或不履行合同。造成对方经济损失的，由该方负责赔偿对方因此而遭受的经济损失。

第三十
发生和后果
者不能按
况电报通
部分不能
生地区的
定是否解
须报请原

第三十
但必须遵守

第三十
神，通过协
会进行调整

第三十
部门批准之
第三十
请原审机构

甲
东莞市虎门
地址：东莞市

电话：551178
法定代表：(签

十一、不可抗力

第三十二条：由于地震、台风、火灾、战争以及其它不能预见并且对发生和后果不能防止或避免的不可抗力事故，致使直接影响合同的履行或者不能按约定条件履行时，遇有上述不可抗力事故的一方应立即将事故情况电报通知对方。并应在十五天内，提供事故详情及合同不能履行、或者部分不能履行、或者需要延期的理由的有效证明文件（该文件应由事故发生地区的公证机构出具）。按照事故对履行合同影响程度，由双方协商决定是否解除合同，或者部分免除履行合同的责任、或者延期履行合同，并须报请原审批机构审批。

十二、产品商标

第三十三条：合作企业内外销产品商标，由合作双方商定使用方案，但必须遵守向有关销售国（地区）申请注册登记的原则。

十三、仲裁

第三十四条：在本合同有效期内，如有争议，双方应本着友好合作精神，通过协商解决。经协商仍不能解决时，应提交中国国际贸易仲裁委员会进行调整和裁决。该会裁决为终局裁决，双方必须遵守执行。

十四、附则

第三十五条：本合同经甲乙双方签署后，自中华人民共和国政府有关部门批准之日起生效。

第三十六条：本合同如有未尽事宜，经双方协商后可修改或补充，并请原审机构批准后，作为本合同的附件。

甲 方

东莞市虎门龙眼乡镇企业发展公司（英属维尔京群岛）均景中国有限公司

地址：东莞市虎门镇龙眼管理区 地址：Omar Hodge Building, Wickhams

电话：551178

法定代表：（签名）

企业发展有限公司
一九九九年六月二十四日
于中国东莞市

乙 方

（英属维尔京群岛）均景中国有限公司

地址：Omar Hodge Building, Wickhams

Cay 1, P.O. Box 362 Road Town,

Tortola, British Virgin Islands

电话：（852）6932238

法定代表：（签名）

for and on behalf of
RADICA CHINA LIMITED

Authorized Signature(s)

东莞乐迪卡游戏机制造厂有限公司乙方提供设备零配件清单

序号	设备及配备名称	规格型号	单位	数量	单 价 (美元)	总 计 (美元)
以下设备均为全新						
一	生产设备					
1	丝印机		台	6	1750	10500
2	丝印生产线		套	2	1500	3000
3	丝印烤箱		套	2	1500	3000
4	配件		公斤	1000	4	4000
5	25匹水冷式冷气机		台	25	500	12500
6	烫印机		台	4	4000	16000
7	移印机		台	4	4300	17200
8	4安注塑机		台	11	20000	220000
9	8安注塑机		台	16	25000	400000
10	20安注塑机		台	4	40000	160000
11	45安注塑机		台	1	80000	80000

For and on behalf of
RADICA CHINA LIMITED

Authorized Signature

1994年6月24日

东莞乐迪卡

序号	设备及配备
12	冷水机
13	温度控制机
14	注塑机配件
15	稳压器
16	水塔
17	自动波焊机
18	切脚机
19	自动喷油机
20	水压喷油机
21	喷油配件
22	风泵
23	皮带式生产

东莞乐迪卡游戏机制造厂有限公司乙方提供设备零配件清单

序号	设备及设备名称	规格型号	单位	数量	单 价 (美元)	总 计 (美元)	备 注
12	冷水机		台	6	3000	18000	
13	恒温控制机		台	4	1500	6000	
14	注塑机配件		公斤	1000	45	45000	
15	稳压器		台	7	3000	21000	
16	水塔		个	3	4100	12300	
17	自动波焊机		台	1	40000	40000	
18	切脚机		台	5	2000	10000	
19	自动喷油机		台	1	10000	10000	
20	水压喷油机		台	1	20000	20000	
21	喷油配件		套	1	8000	8000	
22	风泵		台	5	2300	11500	
23	皮带式生产线	60"	套	10	7000	7000	



For and on behalf of
RADICA CHINA LIMITED

Authorized Signature(s)

94年6月24日



东莞乐迪卡游戏机制造厂有限公司乙方提供设备零配件清单

东莞乐

序号	设备及设备名称	规格型号	单位	数量	单 价 (美元)	总 计 (美元)
24	皮带式生产线	30"	套	10	4600	46000
25	圆转式生产线		套	2	10000	20000
26	特种生产线		套	8	9000	72000
27	生产线配件		公斤	1000	14	14000
28	660KV发电机		台	3	94000	282000
29	600KVA变压器		台	3	10000	30000
30	维修工具		公斤	1000	2.5	2500

小计：壹佰陆拾陆万肆仟伍佰港元 HK\$: 1664500

二	管理办公设备					
1	电脑连打印机		套	20	3500	70000
2	复印机		台	5	1100	5500
3	传真机		台	2	2500	5000
4	电话转换机		台	1	5000	5000

小计：捌万伍仟伍佰港元 HK\$: 85500



For and on behalf of
RADICA CHINA LIMITED

Authorized Signature

94年6月24日



月 日

序号 设备

三 车辆

1 10座

2 12座

小计：壹拾贰

肆页清单合计：



东莞乐迪卡游戏机制造厂有限公司乙方提供设备零配件清单

序号	设备及设备名称	规格型号	单位	数量	单 价 (美 元)	总 计 (美 元)	备 注
三	车辆						
1	10吨货车	乐迪	辆	2	55000	110000	
2	12座面包车		辆	1	15000	15000	

小计：壹拾贰万伍仟港元

HK\$: 125000

肆页清单合计：壹佰捌拾柒万伍仟港元

HK\$: 1875000

For and on behalf of
RADICA CHINA LIMITED

App: Signature(s)

94年 6 月 24 日

年 月 日

**中外合作经营企业
东莞乐迪卡游戏机制造厂有限公司**

章

程

一九九四年六月 日

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第一章	总 则
第二章	合同期限、延长与终止
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第四章	购销业务
第五章	董事会、经理
第六章	财务、会计、税务
第七章	职工的雇用和解雇
第八章	职工的工资和福利
第九章	工会组织
第十章	附 则

“东”

“东”
京群岛也
则，经过
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第一条
“东莞市
岛)均景中
合作企
第二条
有关条例
第三条
元)，其中
厂房土建费

第四条
第五条
期满前六个
批准延长合
第六条
方负责赔偿
第七条
审批机构报
营业执照。

第八条
产在国际市
第九条：
万元。

“东莞乐迪卡游戏机制造厂有限公司”章程

前 言

“东莞市虎门龙眼乡镇企业发展公司（下称甲方）”与“（英属维尔京群岛也称处女岛）均景中国有限公司（下称乙方）”，本着平等互利原则，经过充分友好协商，就合作经营游戏机的产销业务，除签署合营合同（下称合同）外，特制订本章程。

第一章 总 则

第一条：“东莞乐迪卡游戏机制造厂有限公司”（下称合作企业）是由“东莞市虎门龙眼乡镇企业发展公司”与（英属维尔京群岛（也称英属处女岛）均景中国有限公司”合作经营的企业，属中外合作经营企业性质。

合作企业的法定地址为：广东省东莞市虎门镇龙眼管理区。

第二条：合作企业一切活动，必须遵守中华人民共和国法律，法令和有关条例规定。

第三条：合作企业投资总额为500万美元（注册资本为500万美元），其中设备价款190万美元，流动资金75万美元，土地使用费及厂房土建费共235万美元。

第二章 经营期限

第四条：合作企业经营期限为三十年，从营业执照签发之日起计。

第五条：合作企业经营期满时，如甲乙双方愿意继续合作，可在合同期满前六个月提出，经双方协商同意，报请中华人民共和国政府有关部门批准延长合作经营期限。

第六条：因一方违反合同而造成另一方的经济损失，由违反合同的该方负责赔偿。

第七条：合作企业在合营合同终止时，清理工作一结束，应及时向原审批机构报告，并向原注册登记的工商行政管理局办理注销手续，并交回营业执照。

第三章 经营目的和生产规模

第八条：合作企业的经营目的，是建设具有先进技术和设备的企业生产在国际市场上具有竞争能力的优质游戏机（产品）。

第九条：合作企业年产游戏机共2200万台，年产值为人民币5980万元。

第四章 购销业务

第十条：合作企业生产所需的原辅料及包装物料，在中国境内外市场条件相当时，尽先在中国境内购买；如确需进口，可由合作企业在外组织或委托乙方在外购买。其价格须经双方认可。

第十一条：合作企业产品80%外销，由乙方负责；20%内销，由甲方负责。全部产品定价包销，产品销售价格由董事会商定。

第五章 董事会和总经理

第十二条：在合同生效之日，成立由7人组成的董事会。其中甲方2人、乙方5人；董事长1人，由乙方委派，副董事长1人，由甲方委派，其余为董事。董事和正副董事长任期为4年，经委派方继续委派可以连任。若届满时未办理接任委派手续，则视同连任下一届。董事会为合作企业的最高权力机构。董事会根据中国政府的法律、法令和有关规定，制定合作企业规章制度、员工守则，决定合作企业的经营方针、发展计划、产品销售价格，审核财政收支预算、决算、利润分配、人员编制、人事任免、工资福利待遇，以及决定其他生产经营上的重大问题。董事会召开会议，每半年一次。

第十三条：合作企业实行董事会领导下的经理负责制。下设总经理1人，副总经理1人。其职权是：贯彻董事会的决议，并对合作企业盈亏负直接责任；主持制订和下达合作企业所属生产部门的各项生产经营计划，并领导组织生产部门保证其实施；负责原材料供应和产品的销售。

第六章 财务、会计、税务

第十四条：合作企业实行独立核算成本，执行中华人民共和国财政部门规定的会计制度。会计年度从公历年每年十一月一日起至十月三十一日止。合作企业会计，采用国际通用的权责发生制和借贷记帐法记帐，一切自制凭证单据、帐簿、报表用中文书写，亦可同时用英文书写。

第十五
合作企业的
理局公布的

第十六
如需向国外

第十七
80万元人

第十八
各自按中国
用。

第十九
民共和国税
受优惠待遇。

第二十
亏情况的报

第二十
和合作企业

第二十二
可根据劳动
薪直至开除

第二十三
以及经过培
要按照劳动

第二十四
业不予补偿。

第十五条：合作企业在中国银行东莞分行申请开设人民币和外汇帐户。合作企业的人民币和外汇收支须分别记帐，并按当月第一天的国家外汇管理局公布的外汇牌价作为记帐汇率。合作企业采用人民币为记帐本位币。

第十六条：经董事会协商同意，合作企业可向中国银行申请短期贷款。如需向国外银行贷款时，由乙方出具保函。

第十七条：甲方不参与合作企业的利润分配，第一年向合作企业收取80万元人民币，并从第四年起每三年递增20%。

第十八条：合作企业双方所分得的税前利润，须各自缴交所得税，并各自按中国政府有关规定按比例提取“三项基金”并纳入合作企业统一使用。

第十九条：合作企业在各项经济活动中，有关纳税事项应按《中华人民共和国税法》规定交纳各项税金，并可按有关规定，申请减免税收和享受优惠待遇。

第二十条：合作企业必须定期向有关主管部门按时报送经营、资产盈亏情况的报表资料，并接受其监督。

第七章 职工的雇用和解雇

第二十一条：职工的录用、解雇和劳动工资，依照中国政府有关规定和合作企业与工会双方订立的劳动合同办理。

第二十二条：职工违反工厂规章制度和劳动纪律，并造成一定后果者，可根据劳动合同规定，按情节轻重，分别不同情况，给予警告、记过、降薪直至开除处分。

第二十三条：合作企业对因生产、技术条件发生变化而多余的职工，以及经过培训不能适应要求、又不宜改调其他工种的职工，可以解雇，但要按照劳动合同规定，由合作企业给予一定补偿。

第二十四条：合作企业职工，可按劳动合同规定要求辞职，但合作企业不予补偿。

经合作企业培训有专门技术的职工，应为合作企业服务三年；不足三年应赔偿合作企业对其培训费。

第二十五条：对合作企业解雇，处分职工，工会如认为有不合理的，有权提出异议，并派代表和合作企业协商解决。如协商不能一致，可由争议一方或双方向上级管理部门请求仲裁。如有一方不能仲裁决定，应向合作企业所在地所属辖区的人民法院提出诉讼。其费用由败诉一方负担。

第八章 职工的工资和福利

第二十六条：职工的工资和劳保福利，由合作企业按中国政府有关规定办理。

第二十七条：合作企业对职工实行定期的技术考核和升级制度，原则上实行计时工资制，并随生产的发展相应提高工资福利。对合作企业有卓越贡献者，应给予特殊奖励。

第二十八条：合作企业应执行中国政府有关劳动保护的规章制度，保证安全生产和文明生产。中国政府有关劳动管理部门有权就此进行监督检查。

第九章 工会组织

第二十九条：合作企业根据《中华人民共和国工会法》建立工会组织。其任务是：代表职工同合作企业签订集体劳动合同，维护职工的正当权益；团结教育全体职工执行合同、遵守纪律、学习技术、完成生产任务；对违反国家法律或合作企业制订的厂规者，应及时加以教育。

第三十条：合作企业工会参加调处职工和合作企业之间可能发生的争议。

第三十一条：根据《中华人民共和国工会法》规定，合作企业按照职工实得工资总额提取百分之二的工会费，并由工会监督使用职工集体福利经费，开发职工文娱、体育活动，改善职工的物质文化生活。

第三十二条：工会负责人必要时可列席董事会。反映职工意见。参加有关生产经营和职工工资、福利、劳保问题的讨论，但没有表决权。

第十章 附 则

第三十三条：本章程如与中国政府有关规定相抵触时，以中国政府有关规定为准。如有不尽之处，由合作企业董事会修改或补充，并报原审机关批准。

第三十八条：本章程经合作企业甲乙双方认可后，自中华人民共和国政府有关部门批准之日起生效。

甲 方

乙 方

莞市虎门龙眼乡镇企业发展公司 (英属维尔京群岛)均景中国有限公司

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Virgin Islands

话：551178

表：

张润霖

电话：551178 LIMITED

代表：

W. H. Hodge

Authorized Signature(s)

一九九四年六月

日

于中国东莞市

关于中外合作经营
东莞乐迪卡游戏机制造厂有限公司

可
行
性
报
告

东莞市虎门龙眼乡镇企业发展公司
(英属维尔京群岛) 均景中国有限公司

1994年6月24日

关于合作经营“东莞乐迪卡游戏机制造厂有限公司”的可行性报告

东莞市虎门龙眼乡镇企业发展公司与英属维尔群岛（也译处女岛）均景中国有限公司经过充分协商，一致同意在东莞市共同举办合作经营企业，经营游戏机产销业务。现将该项目的可行性分述如下：

一、合作企业名称与性质：

合作企业定名为“东莞乐迪卡游戏机制造厂有限公司”（下称合作企业），（其英文名称为：DONGGUAN RADICA GAMES MANUFACTORY CO., LTD），属中外合作性质。

二、合作企业所在地：

合作企业设在广东省东莞市虎门镇龙眼管理区。

三、合作各方及其法定代表人：

1、东莞市虎门龙眼乡镇企业发展公司（下称甲方）

法定代表：张润森。

2、（英属维尔京群岛）均景中国有限公司（下称乙方）

法定代表：David C.W. Howell（贺大维）

四、项目申请理由：

本项目之外方（英属维尔京群岛）均景中国有限公司其子公司均景电子游戏机有限公司及香港均景有限公司经营生产制造游戏机已有多年时间，因此，该合作企业的原材料市场及产品销售市场是可行的，该产品出口美国、日本、欧洲等地，产品质量档次高，技术要求高，对环境污染少，并可解决本地人员就业问题，经济效益和社会效益都是明显好，综合上述，该项目是可行的。

五、投资总额为500万美元。其中：设备价款190万美元，流动资金75万美元，土地使用费及厂房土建费共235万美元。合作企业注册资本为500万美元。

六、合作条件：

(一)、资金、厂房与场地方面：

1、甲方提供土地20000平方米给乙方使用，乙方一次性付给甲方土地使用费人民币400万元正，并提供劳力2000人。

2、乙方无息投资500万美元，其中设备资金190万美元、流动资金75万美元，土地使用费及厂房土建费共235万美元。

(二)、外方投入设备及资金方面：

乙方投资额经在中国注册的会计师进行验资后，由合作企业据此向乙方发给投资证明书。乙方提供的设备资金及厂房土建费，在经中国政府有关财税部门批准后可提取折旧费，在利润分配前由合作企业归还乙方。

乙方按合同规定的全部所得收入（包括利润和折旧摊销收回的投资额），在减除向中国政府缴纳有关税收后，如需汇出，应按照《中华人民共和国外汇管理暂行条例规定》，通过中国银行东莞分行如数汇出乙方指定的银行帐户内。从合作期满时起，合作企业所有的固定资产全部不再作价，归甲方所有。本合同临近期满时，若乙方尚未能收回投资，经双方协商，可以相应延长合作期限，但须提前报请原审批机关批准。

(三)利润分配：

甲方不参与合作企业的利润分配，第一年甲方向合作企业收取八十万元人民币作管理费，并从第四年起每三年递增20%。若合作企业发生亏损，则乙方负担甲方管理费，合作企业在缴交所得税后，按国家及地方规定提取“三项基金”。

七、经营范围和生产规模：

合作企业为经营电子游戏机、机械式游戏机的产销业务，需引进生产用设备1000台/套，年产上述产品2200万台。

年产值为人民币5980万元。

产品20%内销，由甲方负责；80%外销，由乙方负责；全部产品定价包销，包销价格由董事会商定。

八、合作期限：

合作期限为30年。

九、物料来源：

生产所需原料、辅料、包装物料及燃料，主要系进口解决。

十、外商资信情况：

该投资外商David C.W Howell (贺大维) 先生是英国人，是(英属维尔京群岛)均景中国有限公司三个合伙人之一，是该公司董事长，该公司资金雄厚，其子公司(香港)均景有限公司早于91年已到我管理区投资办来料加工厂，现发展良好，据香港银行提供的银行资信表明，该企业是可靠的。

十一、初步经济效益分析：

(一)产品成本测算(按投产后正常生产年度计算)

1、年销售预测：

产品名称	年产量 (万台)	内 销 情 况			外 销 情 况			合计金额 (折合 人民币) (万元)
		数 量 (万台)	单 价	金 额 (万元)	数 量 (万台)	单 价	金 额 (万 元)	
1 掌上小型游戏机	1980	360	人民币 2.22 (元/台)	人民币 799.2 万元	1620	0.26 美元/台	421.2 (折人民币 3596.4万元)	4395.6
2 桌上型游戏机	220	40	人民币 7.2 (元/台)	人民币 288 万元	180	0.82 美元/台	147.6 (折人民币 1296万元)	1584
合 计 金 额		内销合计(人民币 1087.2万元)			外销合计美元568.8万元 (折人民币4892.4万元)			(全部合 计5979.6 万元(S)

(二)、年成本估算：

科 目	产品总成本 (人民币万元)	其中外汇支出 (万美元)	备 注
合 计 金 额	5426.6 (C)	348.4	
一、原辅材料及包装物料	3000	270	
二、费用开支	2426.6	78.4	
其中：工资	1200	40	
劳 务 费	50	/	
工 会 经 费	22	/	
企业管理费	60	/	
水 电 费	430	/	
土建、厂房宿舍租金	70	7.9	
设备折旧费	167.2	19	
维 修 费	30	2	
运 输 费	80	5	
保 险 费	15	1.7	
银行手续费	8	0.8	
关 税	320	/	
增 值 税	54.4	/	
其他(不可预见费)	20	2	

(三)、年税前利润测算：

$$\begin{aligned}
 \text{年税前利润} &= \text{收入总额 (S)} - \text{年总成本 (C)} \\
 &= \text{(人民币) } 5976.6 \text{ 万元} - 5426.6 \text{ 万元} \\
 &= 550 \text{ 万元 (P)}
 \end{aligned}$$

投产后的主要技术经济指标

(货币单位：人民币万元)

各阶段 项 目	第1~2年	第3~5年	第6~30年	30年累计
产 量	4400万台	4500万台	20000万台	28900万台
销售产值(S)	11953	24000	300000	335953
税前利润(P)	1100	2000	21250	24150
所 得 税	/	264	5610	5874
“三金”提取	165	260.4	2346	2741.4
净 利 润	935	1475.6	13294	15534.6

(注本表“所得税”系指合作企业所得税)

国外汇收支平衡测算

(单位：万美元)

项 目		第1~2年	第3~5年	第6~30年	30年累计
一、外汇收支		1137.6	2 2 8 0	2 8 5 0 0	31917.6
二、外汇支出		766.8	1 5 1 2	15913.5	18192.3
其 中	原 辅 物 料	5 4 0	1139.8	1 3 5 4 6	15225.8
	港 方 工 资	8 0	1 2 0	9 0 0	1 1 0 0
	设备厂房折旧	53.8	80.7	290.5	4 2 5
	运 输 费 用	1 0	1 5	1 4 0	1 6 5
	修 理 费	4	6	6 0	7 0
	银行利息手续费	1.6	2.4	2 5	2 9
	其 他	7.4	11.1	1 0 0	118.5
	港 方 利 润	8 8	1 3 7	8 5 2	1 0 5 9
	三、外汇结余		352.8	7 6 8	12586.5

00 各方收益情况

(单位: 人民币万元)

项 目	第1~2年	第3~5年	第6~30年	30年累计
国家收益	748.8	1800	24810	27358.8
其 中				
关税	640	1296	16200	18136
工商税	108.8	240	3000	3348.8
所得税	/	264	5610	5874
甲方利润	160	272	5798.1	6230.1
乙方利润	775	1203.6	7495.9	9304.5

(c) 投资回收期计算

合作企业投资总额为人民币4300万元; 若仅以头几年所得纯利统计, 静态计算需7年9个月时间可全部收回此额。

甲 方:

名称: 东莞市虎门龙眼乡镇企业发展公司 (盖章)

联系人: 张润森 联系电话: 551178



乙 方:

名称: (英属维尔京群岛) 均景中国有限公司

联系人: David C.W Howell 联系电话: (852)6932238

(贺大维)

For and on behalf of
RADICA CHINA LIMITED
均景中国有限公司
(盖章)

Authorized Signature(s)

1994年6月 日

Computation of Per Share Earnings
(in thousands, except for share data)

	Year Ended December 31,		
	1994	1993	1992
Primary Earning			
Net income	<u>\$ 17.160</u>	<u>\$ 10.077</u>	<u>\$ 1.712</u>
Weighted average number of common shares outstanding (1)	<u>21,308,000</u>	<u>19,696,000</u>	<u>18,728,000</u>
Primary earnings per common share	<u>\$ 0.81</u>	<u>\$ 0.51</u>	<u>\$ 0.09</u>
Fully diluted (2)			
Net income	<u>\$ 17.160</u>	<u>\$ 10.077</u>	<u>\$ 1.712</u>
Weighted average number of common shares outstanding	<u>21,308,000</u>	<u>19,696,000</u>	<u>18,728,000</u>
Assuming conversion of share options under the employment agreement and Share Option Plan	<u>230,706</u>	<u>262,739</u>	<u>262,739</u>
	<u>21,538,706</u>	<u>19,958,739</u>	<u>18,990,739</u>
Earnings per average number of shares outstanding and common stock equivalents	<u>\$ 0.80</u>	<u>\$ 0.50</u>	<u>\$ 0.09</u>

- (1) Adjusted to reflect the 1994 1000-for-one stock split.
- (2) This calculation is submitted in accordance with Regulation S-K Item 601(b)(ii) footnote 2 although not required by footnote 2 to paragraph 14 of APB No. 15 because it results in dilution of less than 3%.

		Share Options			Common Share Equivalents
Granted		188,000	376,000	735,000	
Date		12/13/93	12/13/93	06/27/94	
Price		0 57	8 53	8 50	
Quarter 1					
Assumed price (A)	11				
Cash on issue (B)		107.150@	3,208.032@	N/A	
Shares to be issued		188,000@	376,000@		
Shares to be acquired (B/A)		9.742@	291.639@		
		178,258@	84,361@		262,619@
Quarter 2					
Assumed price (A)	11				
Cash on issue (B)		107.160@	3,208.032@	N/A	
Shares to be issued		188,000@	376,000@		
Shares to be acquired (B/A)		9.742@	291.639@		
		178,258@	84,361@		262,619@
Quarter 3					
Market value					
July	8.491				
June	9.114				
May	10.188				
Average price (A)	9.264@				
Cash on issue (B)		107.160@	3,208.032@	6,247.500@	
Shares to be issued		188,000@	376,000@	735,000@	
Shares to be acquired (B/A)		11.567@	346.278@	674.360@	
		176,433@	29,722@	60,640	
Pro-rata		1	1@	0 370	
		176,433@	29,722@	22,410@	228,566@
Quarter 4					
Market value					
October	5.506				
September	5.920				
August	5.514				
Average Price (A)	5.647@				
Cash on issue (B)		107.160@	0@	0@	
Shares to be issued		188,000@	0@	0@	
Shares to be acquired (B/A)		18.978@	0@	0@	
		169,022@	0@	0@	169,022@
Total					922,826@
Average					230.706@

Subsidiaries of Radica Games Limited

<u>Name of Subsidiary</u>	<u>State or Country in Which Organized</u>
United States	
Radica Enterprises Ltd - Operates as Radica USA Ltd	Nevada
Disc., Inc.	Nevada
International	
Radica Limited - Radica China Ltd	Hong Kong British Virgin Islands
- Livermeade - RadMex	Hong Kong Mexico
Radica Sales HK Ltd	Hong Kong

INDEPENDENT AUDITORS' CONSENT

Board of Directors
Radica Games Limited

We hereby consent to the incorporation by reference of our report dated December 16, 1994 appearing in this Annual Report on Form 20-F of Radica Games Limited for the year ended October 31, 1994 in the Registration Statement on Form S-8 (33-86960) for Radica Games Limited Share Options.

Deloitte Touche Tohmatsu

Hong Kong
January 27, 1995

FILMED

FEBRUARY 1995

DISCLOSURE®
Information Services, Inc.

E N D

RADICA GAMES LTD

20-P

SIC3944 NMS SEC# 0-23696

FOR 10/31/96

CARD 001 REC 12/24/96 (c) Disclosure Info. Services, Inc. 309118 96170612 HQ

96 17 0612

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

REC'D S.E.C.
DEC 24 1996
070

☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) or (g) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

OR

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the Fiscal Year Ended October 31, 1996.

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

For the Transition period from _____ to _____
Commission File Number 0-23696

RADICA GAMES LIMITED
(Exact name of registrant as specified in its charter)

Bermuda
(Jurisdiction of incorporation or organization)

**Suite R, 6/F, 2-12 Au Pui Wan St.
Fo Tan, Hong Kong**
(Address of principal executive offices)

68-41-M
PROCESSED BY

DEC 27 1996

DISCLOSURE INC.
LJH

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, Par Value \$.01	NASDAQ

Securities registered pursuant to section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Title of each class	Amount Outstanding
Common Stock, Par Value \$.01	20,680,000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 ☐ Item 18 ☒

PART 1

ITEM 1. DESCRIPTION OF BUSINESS

Radica Games Limited ("the Company") designs, develops, manufactures and distributes a variety of electronic handheld and mechanical games.

The Company believes that it is the dominant seller of Casino theme games and one of the dominant sellers of other handheld electronic games in the United States. The Company's principal products currently include a range of Casino theme games (Poker, Blackjack and Slot), a range of Heritage card games (Solitaire, Hearts and Gin Rummy) and a range of Sports theme games (Bass Fishin', Golf, King Pin Bowling, 9 Ball Pool and Pinball Rider), all of which have been designed to simulate the play of the original games or sports. The Company expects to produce new electronic handheld games in 1997 (see New Product Introduction). The Company's products are based on familiar games or sports that have been played for generations and are designed to be played with little or no instruction. The Company currently offers over 50 models with retail prices ranging from \$5 to \$50.

In early 1994, the Company entered into an Original Products Manufacturing Agreement ("Manufacturing Agreement") with International Game Technology ("IGT") to manufacture certain commercial gaming machines for IGT commencing in 1995. In connection with this agreement, IGT acquired 9.2% of the Company's Common Stock (after giving effect to the Company's initial public offering). This agreement was terminated in early 1996 due to a lack of Asia market volumes for the proposed machines. In consideration for the termination of the Manufacturing Agreement, IGT transferred back to Radica the 9.2% of Common Stock (2.1 million shares) and such shares were cancelled. (See Original Product Manufacturing)

In June 1995 the Company announced a joint venture with the Hasbro Games Group. Under this agreement, the Company produced a handheld electronic Yahtzee™ game in fiscal 1995, handheld electronic versions of Hangman™, Connect Four™, Battleship™ and Yahtzee™ for Hasbro in 1996 and it expects to produce these four games plus additional games for the Hasbro Games Group in 1997.

The information in this Annual Report on Form 20-F contains forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from projected results as a result of various factors. Forward-looking statements include estimates of new products to be introduced by the Company in the future, statements about the Company's business strategy and plans, statements about the adequacy of the Company's working capital and other capital resources, and in general statements herein that are not of a historical nature. The factors that could cause actual results to differ materially from projected results include the risks of manufacturing in China (including the status of Hong Kong which will become a Special Administrative Region of China in 1997), dependence on product appeal and new product introductions, dependence on major customers, competition and the other risk factors which are described herein under "Item 1. Description of Business - Risk Factors".

Background

The Company completed an Initial Public Offering (IPO) in May, 1994. Prior to the IPO, the principal shareholders of the Company conducted the Company's business through two separate, jointly owned companies (Radica Limited, which manufactured the Company's products, and Radica USA, which distributed and currently distributes products in the United States) and through a third company, Disc, that was solely owned by Robert E. Davids. President of the Company, which provided certain design and engineering services to Radica Limited ("Radica HK"), and now provides similar services to Radica China Ltd ("Radica China").

Radica HK was established in Hong Kong in December 1985 by James J. Sutter and John N. Hansen and originally sold two models of souvenir slot machine banks. In 1988, Robert E. Davids joined the Company as General Manager and led the Company's development of one of the first souvenir electronic tabletop poker games. In 1989, Mr. Davids became an equal shareholder in the Company with Mr. Sutter and Mr. Hansen. In 1991, the Company introduced one of the first handheld electronic poker games.

Radica initially had its products assembled in Hong Kong by subcontractors and sold through distributors in the United States. Between 1988 and 1990, the Company brought certain of its production activities in house. At the beginning of 1992, the Company opened a factory in Tai Ping, China, moving its production activities from Hong Kong to southern China. In April 1992, Mr. Sutter, Mr. Hansen and Mr. Davids established Radica USA to take greater control of the distribution of the Company's products in the United States. The Company made over 72% of its sales through Radica USA in fiscal 1996.

In December 1993, Radica Games Limited was established as a holding company of Radica HK. Prior to the closing of the IPO, Radica Games Limited acquired all of the outstanding common stock of Radica USA from Mr. Davids, Mr. Sutter and Mr. Hansen in exchange for additional shares of the Company's Common Stock and acquired all of the outstanding common stock of Disc from Mr. Davids. In May 1995 the Company opened its purpose built factory in Tai Ping, China on a 3.7 acre site under the terms of a cooperative joint venture agreement with the local government.

Business Strategy

In order to provide innovative, high quality games at low prices, Radica employs a strategy of product design in the United States, where a substantial majority of the Company's products are sold, combined with engineering and low cost materials procurement in Asia and low cost manufacturing in China, where the Company operates its Factory. The Company's current products and planned products are intended to reach retail price points covering the range of large volume gift products. The Company historically focused primarily on products that combine knowledge of the casino gaming industry with experience in new product introduction, electronic game design and low cost manufacturing. More recently, the Company has placed more emphasis on non-casino theme games.

To provide differentiation between high-end and low-end markets, products are packaged under the name 'Radica™' for the low-end mass markets and under the name 'Monte Carlo™' for the more exclusive high-end markets.

Radica believes its ability to develop and introduce innovative products is enhanced by its established innovative product design and engineering in the United States, its multiple channel distribution capabilities, which allow for close customer contact, and the experience of several of its employees in the casino gaming industry. Large manufacturing volumes and low cost production activities in China have allowed the Company to keep its prices competitive. In addition, electronic parts and subassemblies can be purchased efficiently and at low cost in Asia.

The Company has expanded and continues to expand distribution of its existing products, both inside and outside the United States. As part of this goal, Radica Canada and Radica UK were established in 1995 to distribute products in these markets. The Company intends to pursue related business opportunities that leverage off the Company's product development expertise and the popularity of commercial gaming to access new markets. Related business opportunities include Original Equipment Manufacturing ("OEM") for other companies, of which the manufacturing for the Hasbro Games Group is an example.

Products

At the end of fiscal year 1996, Radica's principal products included 117 models of handheld and tabletop Casino theme games (including electronic poker, blackjack, slot games and tabletop mechanical slot machine banks), all of which have been designed to simulate the play of the commercial gaming machines found in casinos; 8 models of Heritage theme games (including Solitaire, Hearts, Gin Rummy and Bingo); 7 models of Sports theme games (Bass Fishin', King Pin Bowling, 9 Ball Pool, World Class Golf, Tournament Golf, Pinball Rider and Golf Range) and 4 models of OEM games (Connect Four™, Battleship™, Yahtzee™ and Hangman™, the first three of which are also sold under the Company's Monte Carlo™ trade name). However, the foregoing models include 87 models representing discontinued lines, which, unless the market warrants reintroduction, the Company only intends to continue selling so long as inventories exist. The Company intends to introduce over 12 new models in 1997. The Company is focusing its efforts to a greater extent on non-casino theme games. In fiscal 1996, Casino theme games accounted for over 40% of the Company's net sales, Heritage theme games accounted for over 17% of net sales, Sports theme games accounted for over 18% of net sales and OEM products, including those sold under the Company's Monte Carlo™ trade name, accounted for over 24% of net sales. In fiscal 1996, the Company's products had retail prices ranging from \$5 to \$50.

The following table sets forth a breakdown of the Company's sales by major product category for the last four fiscal years.

Units	Year Ended October 31,							
	1993				1994			
	Net Sales	% of Net Sales	Units Sold	No. of Models	Net Sales	% of Net Sales	Units Sold	No. of Models
Casino theme								
— Handheld	\$28,071,718	86.4%	3,485,030	8	\$58,195,409	80.7%	7,674,960	32
— Tabletop	4,293,497	13.2%	549,915	13	13,889,243	19.3%	1,563,401	24
Heritage theme	-	-	-	-	-	-	-	-
Sports theme	-	-	-	-	-	-	-	-
OEM products (including those sold under Monte Carlo™ trade name)	-	-	-	-	-	-	-	-
Others	139,746	0.4%	16,687	1	7,486	0.0%	7,901	12
Total	32,504,961	100%	4,051,652	22	72,092,138	100%	9,246,262	68

Units	Year Ended October 31,							
	1995				1996			
	Net Sales	% of Net Sales	Units Sold	No. of Models	Net Sales	% of Net Sales	Units Sold	No. of Models
Casino theme								
— Handheld	\$41,929,528	79.6%	7,457,696	73	\$15,901,992	33.5%	5,037,180	85
— Tabletop	7,863,600	14.9%	704,354	26	3,335,684	7.0%	357,425	32
Heritage theme	1,521,825	2.9%	116,995	3	8,218,728	17.3%	659,755	8
Sports theme	-	-	-	-	8,608,150	18.1%	734,378	7
OEM products (including those sold under Monte Carlo™ trade name)	1,335,355	2.6%	282,681	2	11,471,024	24.1%	2,192,099	7
Total	52,650,308	100%	8,561,726	104	47,535,578	100%	8,980,837	139

The Company's current Casino theme games are designed to simulate the commercial gaming machines such as Video Poker, Video Blackjack and Slot found in casinos but without any monetary risk or reward. The electronic games allow players to bet points with automatic scorekeeping. The games have the same basic rules and award points at approximately the same probability as commercial casino machines. Players can therefore play for entertainment and/or practice for playing on commercial casino machines. In addition, the Company offers models that allow two players to compete against each other. The Company's games also offer a variety of different features intended to further simulate casino playing.

such as variable betting, music melody on winners, a jackpot bell (slot games), a flashing win light and reel spin sound (slot games). The sound of games can be turned off to permit silent play.

The Company's tabletop models are designed to be attractive souvenirs and gifts. The tabletop models have a coin slot and jackpot bell like commercial casino machines and can be used as savings banks. The electronic tabletop models have features similar to those of the Company's handheld games. Certain of the tabletop mechanical models have a simulated pewter finish to give them an antique appearance.

The Company's Heritage theme games such as Gin Rummy, Hearts, Bingo and Solitaire are electronic handheld versions of classic card, dice and other games. The Company believes that its versions of classic games are designed to provide the highest play value to customers as a result of their accuracy. More Heritage theme games are planned for introduction in 1997.

The Company's Sports theme games are electronic handheld versions of popular sports activities such as Bowling, Bass Fishin' and Golf. Company designers have incorporated the interesting aspects of sports activities into these electronic handheld games. More Sports theme games are planned for introduction in 1997.

The Company's electronic games incorporate a semiconductor microcontroller chip into which the Company's proprietary game software has been masked. The electronic games use LCDs for their display and are battery powered.

The Company sells its low-end, mass merchandise products under the Radica trade names and its high-end products under the Monte Carlo™ trade name.

In fiscal 1997 the Company expects to phase out more than 80 of its current models as part of its strategy to move into other handheld games (see "New Product Introduction"). This move will leave the Company with approximately 27 Casino theme games for 1997.

New Product Introduction

In fiscal 1997, Radica intends to expand its line of adult games by introducing a 'Lite' line of backlit Casino games, 8 models of Heritage games, 3 models of Sports theme games as well as a new line of 'Vision' games for children. The Company believes that its strategy of offering various game models with differing features enables it to market its games to a wide age range of consumers with different tastes and financial means.

In fiscal 1996, the Company introduced a Sports line of casino games, seven models of Sports theme games (World Class Golf, Golf Range, Tournament Golf, Bass Fishin', Pinball Rider, King Pin Bowling, 9 Ball Pool) as well as three new Heritage games (Talking Bingo, Hearts and Gin Rummy).

The Company anticipates that new product introductions in fiscal 1997 will be concentrated in the second and third quarters of that year. By the end of fiscal 1997, the Company expects its product line to include approximately 50 models, as more than 80 models will be phased out during the year as part of the Company's move to further consolidate the Casino theme lines, expand its Heritage, Sports theme and other lines and reduce its inventories. However, it is possible that the Company will determine not to

proceed with any given product or that one or more aspects necessary for introduction of the products in fiscal 1997 will be delayed, which could delay or prevent certain anticipated product introductions.

Manufacturing

Radica's manufacturing is generally limited to IC chip bonding, plastic injection, mold manufacture and assembly operations. The Company orders customized components and parts from suppliers and uses subcontractors for more complicated operations such as masking of the Company's proprietary software onto the semiconductor chips used in its games, LCD tooling and tooling of a small percentage of the molds for its plastic parts.

In 1996 the Company assembled all of its own products in order to control its costs, quality, production and delivery schedules.

The Company's products are not required to obtain any quality approvals prior to sales in the United States. The Company, however, is required to have and has obtained CE approval, Europe's toy safety standard, for its products sold in Europe. The Company has been granted a Chinese toy quality license from the Chinese Import and Export Commodity Inspection Bureau, which is required of toy and game manufacturers in China to export toys or games.

Manufacturing Facilities

Radica currently manufactures its products at its factory ("The Factory") in Tai Ping, southern China approximately 40 miles northwest of Hong Kong. The Factory was constructed with the cooperation of the local government according to the Company's design specifications on a 3.7 acre site. It was scheduled to be constructed in two phases. The first phase was completed and opened in May 1995 and commenced operations in June 1995, and the second phase is currently on hold. The first phase of the Factory has approximately 240,000 sq. ft. of factory space and dormitory facilities for up to 3,000 workers as well as apartments for managers and visitors. The second phase of the Factory is planned to have approximately 210,000 sq. ft. of additional factory space and have dormitory facilities for up to an additional 2,500 workers. The cost of the rights to use the site and construction of the first phase was approximately \$6.0 million, exclusive of manufacturing equipment. The unit capacity of the Factory depends on the product mix produced but is limited by its bonding capabilities. The Company believes that at peak it can produce in excess of 25,000 units of handheld games per day (the maximum number of chips that can currently be bonded per day). However, there can be no assurance that the Company will be able to operate at full capacity or have sufficient sales to warrant doing so.

In June, 1994 the Company entered into a joint venture agreement ("Joint Venture Agreement") with the local government to operate the Factory. The Company funded the construction costs. Such amounts will be applied as a 30 year prepaid leasehold on the Factory. Upon commencement of production, the local government received a fixed annual fee as the joint venture partner. The annual fee is subject to increases every three years.

The Company also manufactures under a processing agreement ("Processing Agreement") with the local government. The Processing Agreement provides by its terms that the local government will provide manufacturing facilities and supply workers to the Company and that the Company will pay a management fee and processing fee and certain other charges. The management fee is paid to the local

government and is based on a negotiated sum per worker at the Factory. The processing fee is based on the value of raw materials shipped into the Factory and the value of products shipped from the Factory and is established in semi-annual production agreements agreed upon with local government officials. The Company pays the processing fees through the Bank of China in Hong Kong and the funds are then placed in an operating account including other Company funds in China, all of which are used to pay the costs of the Factory. In practice, the Company operates all aspects of the Factory, including hiring, paying and terminating workers. Most of the Company's factory workers are hourly employees and are provided room and board in addition to their wages. In addition, the Company bears all other costs of operating the Factory, including utilities and certain employee social welfare charges established by the local government. Many aspects of the Processing Agreement and operation of the Factory are dependent on the Company's relationship with the local government and existing trade practices in addition to the terms of the Processing Agreement. The Company believes that its relationship with the local government is good.

Materials

Major components used in the Company's products are liquid crystal displays ("LCDs"), semiconductor chips, printed circuit boards ("PCBs") and molded plastic parts. The Company purchases LCDs, PCBs, and semiconductor chips from several suppliers, although specific LCDs, PCBs or semiconductor chips for any particular model are generally purchased from a single supplier. The Company generally provides six to nine months order indications to its semiconductor chip suppliers and must place firm orders a minimum of three months in advance of delivery. The Company tries to maintain only two months supply of semiconductor chips, which may constrain increased production of its products on short notice. The Company pays for most of its materials in U.S. dollars.

The Company's major suppliers in fiscal 1996 included Duracell Inc. (batteries), Epson Hong Kong Ltd (semiconductor chips), GPI International Ltd (batteries), Just Technology Co. Ltd (keypads), Leader Printed Circuit Board Ltd (PCBs), Lik Sun Printing Co. Ltd (printing), Onpress Printed Circuit Boards Ltd (PCBs), Senmax Ltd (keypads), Sunplus Technology Co. Ltd (semiconductor chips), United Radiant Technology (HK) Ltd (LCDs), Wintek Corporation (LCDs), Ying Tat Industrial Co. Ltd (Vac-formed packaging) and Yu Lee Printing Co. (printing).

Sales and Distribution

Radica's products are sold in over 29 countries, with the United States accounting for over 89% of net sales in fiscal 1996. The Company sells its products directly to over 500 retailers in the United States and to over 20 distributors world-wide. The Company participates in the electronic data interchange ("EDI") program maintained by 25 customers including J.C. Penney's, Sears, Target and Wal-Mart, Walgreen, Best Products, K-Mart and Venture. In fiscal 1996, the largest customer of the Company, Wal-Mart, accounted for 16.7% of net sales; in addition OEM work for the Hasbro Games Group accounted for 20.8% of net sales.

The following table sets forth certain of the Company's major customers in 1996, including distributors (alphabetical order).

<u>Department Stores</u>	<u>Drug Stores</u>	<u>International Distributors</u>	<u>Mass Merchandisers</u>
Dayton Hudson	Arbor Drugs Inc.	Altina (Greece)	Army Airforce Exch.
Dillards	Boots	Alec Cooper (South Africa)	Bradlees
Foley's	Eckerd Corporation	Cartal Diffusion (Italy)	Caldor
Gottschalk	Genovese Drugs	Darmon (France)	Hills
Harrods	Long's Drugs	Estesa Incorporated (Japan)	K-Mart
J.C. Penney's	Osco Drug	Excel Venture (Singapore)	Kay Bee
Kohl's	Thrifty Payless Drug	Income Express (Hong Kong)	Meijer
Macy's	Walgreens	Jedko Games (Australia)	Mervyns
Marshall Fields		Mastarting A.B. (Sweden)	QVC
Robinson's-May		Popular de Juguetes (Spain)	Target
Woolworths			Venture
			Wal-Mart
<u>Catalog Showrooms</u>	<u>Mail Order Retailers</u>	<u>Specialty Gift Shop Operators</u>	<u>Consumer Electronics Stores</u>
Best Products	Fingerhut	Caesar's World	Best Buy
Index	Grattan Innovations	Circus Circus	Radio Shack
Service Merchandise	Home Shopping Network	Host Marriott	
Sharper Image	Wish Book	Spencer Gifts	
		Dufferen Game Room Stores	
<u>Grocery & Convenience Stores</u>	<u>Toy Retailers</u>		
Albertsons	Hamleys		
Emro Marketing	Toys'R'us		
Kroger			
L&L Jirochi			
M.W. Kasch			
W.H. Smith			
Westfair Super Stores			

Over the last six years, the Company has expanded its distribution channels from Las Vegas souvenir and other specialty shops to general retailers, and from Christmas and other gift season display to year round display. Previously, the Company moved United States distribution of its products in-house through Radica USA. In fiscal 1995, the Company took control of its marketing in Canada and the United Kingdom by establishing distribution operations in those countries. Radica's distribution operations use regional sales managers working for the Company to manage manufacturers representatives and brokers that sell its products. These manufacturers representatives are not employees of the Company and work on a commission basis.

The Company's customers normally provide indications of interest, which may be cancelled at any time, from three to six months prior to scheduled delivery, but only confirm orders eight weeks in advance of delivery. Accordingly the Company generally operates without a significant backlog of

regular orders, however, OEM orders tend to be placed 3 months or more in advance. The Company's backlog orders as of the end of fiscal 1996 were approximately \$11 million, of which approximately \$6.1 million relates to OEM business.

The Company does not sell any of its products on consignment (except to a limited extent in Hong Kong and China). In certain instances, where retailers are unable to sell the quantity of products which have been ordered from the Company, the Company may, in accordance with industry practice, assist retailers to enable them to sell such excess inventory by offering discounts, accepting returns and other concessions. A portion of firm orders, by their terms, may be canceled if shipment is not made by a certain date.

The Company's products generally carry a one year consumer warranty from the date of sale, and the Company generally honors warranty claims even after the one year period. In each of the last two years, warranty costs incurred have been less than 2% of net sales.

Product Development

Radica's engineering and development department has approximately 59 staff worldwide. The Company's product development starts with teams in Reno, Nevada and Dallas, Texas and continues through to the engineering teams in Hong Kong and in the Tai Ping Factory. The Company has a formalized product development process that includes semiannual meetings of its worldwide product development and sales departments. In fiscal 1994, 1995 and 1996, the Company spent approximately \$1,577,000, \$2,141,000 and \$1,768,000 respectively, on research and development. The Company's research and development is heavily oriented toward market demand. Based on its ongoing contact with consumers, retailers and distributors worldwide, the Company's sales department seeks to understand and assist the product development teams in responding to consumer and retailer preferences. The sales department also targets certain retail price points for new products which drive the Company's product development, with designs, features, materials, manufacturing and distribution all developed within the parameters of the target retail price.

The Company is also engaged in designing and producing products for the Hasbro Games Group and expects to increase the number of products manufactured for them in 1997.

Original Product Manufacturing

As mentioned above, the OEM agreement with IGT was terminated in early 1996 due to a lack of Asia market volumes for the proposed machines.

In 1995, the Company was successful in establishing a joint venture with the Hasbro Games Group to manufacture product for them. The Company intends to pursue other OEM business in the future. However it is uncertain whether the Company can successfully attract additional original product manufacturing business or that it will be profitable.

Intellectual Property

The Company does not consider patent protection to be significant to its current operations.

Competition

The gifts and games business is highly competitive. Radica believes that it has a dominant market share of the U.S. market for non-gambling Casino theme games and is one of the dominant sellers of other handheld electronic games. The Company's primary competitors are Tiger Electronics, Inc. ("Tiger"), and Microgames of America ("Microgames"). Tiger and Microgames both procure their products from manufacturers in China. The barriers for new producers to enter the Company's markets are relatively low and the Company expects that it will face increased competition. The Company competes for consumer purchases on the basis of price, quality and game features and for retail shelf space also on the basis of service, including reliability of delivery, and breadth of product line. Some competitors offer products at lower prices than the Company, are better established in the toy and games industry and are larger than the Company. The Company's products also compete with other gifts and games for consumer purchases. In addition, with respect to OEM activities, the Company will compete with a number of substantially larger and more experienced manufacturers. As the Company enters other markets and businesses, it expects to face new competition.

Taxation of the Company and its Subsidiaries

There is currently no Bermuda income, corporation or profits tax payable by the Company. As an exempted company, the Company is liable to pay to the Bermuda government an annual registration fee calculated on a sliding scale basis by reference to its assessable capital, that is, its authorized share capital plus any share premium on its issued shares of Common Stock currently at a rate not exceeding \$25,000 per annum.

The Hong Kong profits tax rate currently applying to corporations is 16.5%. Currently, Radica HK and two other Hong Kong-based subsidiaries pay Hong Kong profits tax on service and sales income.

On July 1, 1994 the Company's manufacturing operations were transferred to Radica China. Because the Company operates in China only pursuant to the Processing Agreement and the Joint Venture Agreement, it is not subject to China tax. With effect from the first profitable year of the joint venture, the Company will operate under a two year tax holiday in China, followed by a three year period of reduced tax at half the regular rate of 24%.

Radica USA and Disc are fully subject to U.S. federal taxation, as well as any applicable state or local taxation, on their taxable income (including income, if any, imputed under applicable transfer pricing rules). Currently, the highest marginal rate of U.S. federal corporate income tax is 35%. In addition, dividends paid by Radica USA and Disc to the Company will be subject to a 30% U.S. federal withholding tax, resulting in an effective rate of U.S. federal taxation on distributed profits of up to 54.5%.

Employees

As of October 31, 1996 the Company had 1,338 full-time employees (49 in North America, 1 in Europe and 1,288 in Asia), of whom 1,110 worked in production processes including manufacturing, purchasing, materials, shipping and stores (including those employed under the Joint Venture and Processing Agreements in China); 24 worked in sales and marketing; 59 worked in engineering and development; 30 worked in finance and 115 worked in administration, including employees in security,

kitchens, management information systems and document control. The Company believes that its future success will depend, in part, on its ability to continue to attract and retain highly skilled technical, marketing, support and management personnel.

None of the Company's employees are subject to a collective bargaining agreement and the Company has never experienced a work stoppage. Management believes that its employee relations are good.

RISK FACTORS

The shares of Common Stock of the Company involve a significant degree of risk. Prospective investors should carefully consider the following factors together with the other information contained herein prior to making any investment decision regarding the Company.

Risks of Manufacturing in China

Risk of China Losing Most Favored Nation Status or of Changes in Tariff or Trade Policies. The Company manufactures in China and exports from Hong Kong to the United States and worldwide. Its products sold in the United States are currently not subject to U.S. import duties. China currently enjoys most favored nation ("MFN") trade status under U.S. tariff laws, which provides a favorable category of U.S. import duties. As a result of opposition to certain policies of the Chinese government and China's growing trade surpluses with the United States, there has been, and in the future may be, opposition to the extension of MFN status for China. The loss of MFN status for China, changes in current tariff structures or adoption in the United States of other trade policies adverse to China could have an adverse effect on the Company's business.

Chinese Political, Economic and Legal Risks. The success of the Company's current and future operations in China and Hong Kong (which will become a Special Administrative Region of China in 1997) is highly dependent on the Chinese government's continued support of economic reform programs that encourage private investment, and particularly foreign private investment. Although the Chinese government has adopted an "open door" policy with respect to foreign investment, there can be no assurance that such policy will continue. A change in policies by the Chinese government could adversely affect the Company by, among other things, imposing confiscatory taxation, restricting currency conversion, imports and sources of supplies, or expropriating private enterprises. Although the Chinese government has been pursuing economic reform policies for the past 15 years, no assurance can be given that the Chinese government will continue to pursue such policies or that such policies may not be significantly altered, especially in the event of a change in leadership or other social or political disruption.

China does not have a comprehensive system of laws. Enforcement of existing laws may be sporadic and implementation and interpretation thereof inconsistent. The Chinese judiciary is relatively inexperienced in enforcing the laws that exist, leading to a higher than usual degree of uncertainty as to the outcome of any litigation. Even where adequate law exists in China, it may be impossible to obtain swift and equitable enforcement of such law, or to obtain enforcement of a judgment by a court of another jurisdiction.

Dependence on Local Government. The Company operates the Factory under both the Joint Venture Agreement and the Processing Agreement with the local government. Many aspects of such

agreements and operation of this Factory are dependent on the Company's relationship with the local government and existing trade practices. The relationship of the Company with the local government could be subject to adverse change in the future, especially in the event of a change in leadership or other social or political disruption.

Chinese Taxation. The Company has not paid any Chinese taxes and believes that, under current Chinese tax rules and practice, its activities in China have not subjected it to Chinese taxes. The Chinese tax system is subject to substantial uncertainties and has been subject to recently enacted changes, the interpretation and enforcement of which are also uncertain. There can be no assurance that changes in Chinese tax laws or their interpretation or their application will not subject the Company to substantial Chinese taxes in the future.

Limited Infrastructure. Electricity, water, sewage, telephone and other infrastructure are limited in the locality of the Factory. In the past, the Company has experienced temporary shortages of electricity and water supply. The Company has installed three back-up electrical generators in the Factory which can support them in the event of a power shortage. There can be no assurance that the infrastructure on which the Factory is dependent will be adequate to operate the Factory successfully.

Hong Kong Political, Economic and Legal Risks. The Company also operates in Hong Kong. Hong Kong is currently a colony of the United Kingdom. Sovereignty over Hong Kong will be transferred from the United Kingdom Government to the Chinese Government on July 1, 1997, at which time Hong Kong will become a Special Administrative Region ("SAR") of China. Under the agreements providing for such transfer (known as the "Joint Declaration"), and the Chinese law implementing its commitments thereunder (the "Basic Law"), the current social and economic systems in Hong Kong are to remain unchanged for 50 years, and Hong Kong is to enjoy a high degree of autonomy but the courts of the Hong Kong SAR will have no jurisdiction over acts of state such as foreign and defense affairs. Laws currently in force, as they may be amended by the Hong Kong SAR legislature, are to remain in force except to the extent that they contravene the Basic Law. It is not clear how future developments in Hong Kong and China may affect the implementation of the Basic Law after the transfer of sovereignty in 1997. There can be no assurance that the general political and economic position of Hong Kong, and therefore the Company's results of operations and financial condition, will not be adversely affected as a consequence of the exercise of Chinese sovereignty over Hong Kong. In addition, political and social developments in China and developments in the relationship between the United Kingdom and China in connection with the transfer of the sovereignty of Hong Kong to China have from time to time adversely affected the economy of Hong Kong.

Dependence on Product Appeal and New Product Introductions; Limited Range of Products

The Company's operating results depend largely upon the appeal of its products to consumers. Consumer preferences are highly subjective, and there can be no assurance that consumers will continue to find existing products appealing or will find new products appealing. Also, notwithstanding the Company's recent emphasis on non-casino theme games, the Company continues to offer a relatively limited range of products. This exposes the Company to the risks of any narrowly focused business. Changes in consumer preferences away from the kinds of products offered by the Company could have an adverse effect on the Company.

Some of the Company's products have been only recently introduced and although they may experience good initial sales growth, there is no assurance that such initial success is indicative of significant future sales of such products and the Company expects that the sales of these products will eventually decline. The Company cannot predict how long the product cycle will last for any product. In order to control costs, and take advantage of the finite shelf space available to the Company, it will also need to delete products from its line periodically. The Company's long-term operating results will therefore depend largely upon its continued ability to conceive, develop and introduce new appealing products at competitive prices.

Once a new product is conceived, the principal steps to the introduction of the product include design, sourcing and testing of the electronic components, tooling, and purchase and design of graphics and packaging. At any stage in the process, there may be difficulties or delays in completing the necessary steps to meet the contemplated product introduction schedule. It is, for example, common in new product introductions or product revisions to encounter technical and other difficulties affecting manufacturing efficiency and, at times, the ability to manufacture at all, that will typically be corrected or improved over a period of time with continued manufacturing experience and engineering efforts. If one or more aspects necessary for introduction of products are not met in a timely fashion, or if technical difficulties take longer than anticipated to overcome, the anticipated product introductions will be delayed, or in some cases may be terminated. Therefore no assurances can be given that products will be introduced in a timely fashion.

Future products may utilize different technologies and require knowledge of markets in which the Company does not presently participate. Significant delays in the introduction of, or the failure to introduce, new products or improved products would have an adverse effect on the Company's operating results.

No Assurance of Continued Growth

There can be no assurance that the Company will achieve future growth in net sales and net income or that it will be able to maintain its present levels of net sales and net income. The Company's current business strategy emphasizes the sale of a fewer number of products, while representing a more diverse range of products, i.e., Heritage card games, Sports theme games and OEM games in addition to Casino theme games. The Company is also focusing on the profitability level of its products, and has implemented significant cost-cutting efforts. The Company has de-emphasized sales growth as such, and in fact sales declined in both fiscal 1995 and fiscal 1996. While the Company achieved substantially improved operating results in fiscal year 1996, as compared to fiscal 1995, there can be no assurance that the Company will be able to build on this recent turn-around in operating results.

Dependence on Major Customers

Historically, a significant portion of the Company's sales has been concentrated in a few large retail customers. See Note 13 of Notes to Consolidated Financial Statements included herein. Most of the Company's retail customers operate on a purchase-order basis and the Company does not have long-term contracts with its retail customers. While management considers the Company's relationships with its major retail customers to be good, the loss of one or more of its major retail customers would have an adverse effect on the Company's results of operations.

Dependence on Suppliers and Subcontractors

The Company is dependent on suppliers for the components and parts that it assembles to produce its products. The Company generally purchases the specific LCDs or semiconductor chips for any particular product model from a single supplier. While the Company believes that there are alternative sources for all of its supplies, an interruption of the supply of LCDs, semiconductor chips or other supplies from a supplier could result in significant production delays.

Concentrated Manufacturing Facilities

A disruption of operations at the Factory due to fire, labor dispute, dispute with the local government or otherwise, would have an adverse effect on the Company's results of operations. In such event, the Company believes that it could partially mitigate the effect of a disruption by increasing the use of subcontractors to assemble its products, but there can be no assurance that it would be able to do so. In addition, the Company's manufacturing facilities are dependent on the Company's relationship with the local government.

No Assurance of Success in New Business

In order to sustain growth, Radica intends to expand into related businesses, including original product manufacturing of products for third parties. To date these efforts have only been successful in the case of the manufacturing for the Hasbro Games Group. While several of the Company's executive officers have extensive experience in manufacturing other products in the United States, including Mr. Davids, there can be no assurance that the Company will be able to also perform OEM manufacturing in China successfully. The Company's Pub Poker business was not successful and has been discontinued.

Dependence on Key Personnel

The success of the Company is substantially dependent upon the expertise and services of Mr. Davids, President and Chief Executive Officer of the Company and certain other senior management personnel. The loss of the services of Mr. Davids would have an adverse effect on the Company's business. The Company maintains a "key man" life insurance policy on Mr. Davids, in the amount of \$1 million.

Seasonality

The Company experiences a significant seasonal pattern in its operating results and working capital requirements. The Company typically generates most of its sales in the third and fourth quarters of its fiscal year, prior to the traditional gift season. The Company expects this seasonal pattern to continue for the foreseeable future but to become less pronounced as retailers increasingly sell its products year round and OEM orders increase. The Company's operating results may also fluctuate during the year due to other factors such as the timing of the introduction of new products. The market price of the Common Stock may be subject to significant fluctuations in response to variations in quarterly operating results and other factors. See Note 19 of Notes to Consolidated Financial Statements included herein.

Competition

The gifts and games business is highly competitive. The Company currently faces direct competition from a number of other producers of handheld electronic games, the barriers for new producers to enter into the Company's markets are relatively low and the Company expects that it will face increased competition in the future. Some competitors offer products at lower prices, are better established in the toy and games industry and are larger than the Company. In addition, with respect to OEM manufacturing, the Company will compete with a number of substantially larger and more experienced manufacturers. As the Company enters other markets and businesses, it expects to face new competition.

Control by Existing Shareholders

The Company's largest shareholders (see "Item 4. Control of Registrant") including Mr. Davids, Star Journey Ltd and the Hansen Trust own beneficially in the aggregate a majority of the outstanding Common Stock. Such major shareholders or their predecessors entered into an agreement with the Company, as amended as of February 16, 1994 (the "Shareholders Agreement"), pursuant to which they have agreed to vote for each other's nominees in the election of directors. Consequently, they will have the power to elect the Company's directors and to approve or disapprove all other matters requiring shareholders' approval regardless of the vote of any other shareholders.

Enforceability of Civil Liabilities

The Company is a Bermuda holding company, and a substantial portion of its assets are located outside the United States. In addition, certain of the Company's directors and officers and certain of the experts named herein are resident outside the United States (principally in Hong Kong), and all or a substantial portion of the assets of such persons are or may be located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon such persons, or to enforce against them or the Company judgments obtained in the United States courts predicated upon the civil liability provisions of the United States securities laws. Among other things, the Company understands that there is doubt as to the enforceability in Bermuda and Hong Kong, respectively, in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated solely upon the United States securities laws.

Shares Eligible for Future Sale

The Company currently has 20,680,000 shares of Common Stock outstanding. Of such amount, the 7,141,000 shares sold in the initial public offering (other than any shares which were purchased by "affiliates" of the Company) are tradable without restriction. Substantially all of the remaining shares owned by existing shareholders are restricted securities under the Securities Act of 1933, as amended (the "Securities Act") and may be sold only pursuant to a registration statement under the Securities Act or an applicable exemption from the registration requirements of the Securities Act, including Rule 144 and Rule 144A thereunder. Substantially all of the shares owned by Mr. Davids, Star Journey Ltd and the Hansen Trust and certain other shares owned by certain officers of the Company are currently eligible for sale pursuant to Rule 144, subject to the limitations of such rule. In addition, the Company has granted to Mr. Davids and the Hansen Trust certain registration rights with respect to their shares. No predictions can be made as to the effect, if any, that market sales of shares by existing shareholders or the availability

of such shares for future sale will have on the market price of Common Stock prevailing from time to time. The prevailing market price of Common Stock could be adversely effected by future sales of Common Stock by existing shareholders.

ITEM 2. DESCRIPTION OF PROPERTIES

See Item 1 "Manufacturing Facilities." The Company completed construction of its Factory (450,000 sq. ft.) on a 3.7 acre parcel of land in May 1995. The Company owns a 51 year leasehold on its executive offices (11,000 sq. ft.) and warehouse space (7,900 sq. ft.) in Fo Tan, Hong Kong as well as two houses for employees in Hong Kong (2,100 sq. ft. each). Radica operates its Factory under the terms of the Joint Venture Agreement and Processing Agreement. The Company leases additional storage and office space in Cambridge, UK, Toronto, Canada and office space in Dallas, Texas, Reno, Nevada and Las Vegas, Nevada.

ITEM 3. LEGAL PROCEEDINGS

Ten purported class actions filed in various United States District Courts against the Company, various of its officers and directors, and the managing underwriters of the Company's initial public offering have been consolidated in the United States District Court for the District of Nevada under the caption In re Radica Games Limited Securities Litigation, Master File No. CV-S-94-00653-DAE (LRL). Plaintiffs filed a consolidated complaint on November 4, 1994 that superseded all the complaints in the individual actions.

The named plaintiffs originally sought to represent a class consisting of purchasers of the Company's common stock in the initial public offering or in the open market from May 13 through July 22, 1994 and sought unquantified monetary damages and other relief against the defendants for alleged violations of Sections 11, 12(2), and 15 of the Securities Act of 1933, Sections 10b (and Rule 10b-5 thereunder), 20(a), and 20A(a) of the Securities Exchange Act of 1934, Sections 90.570, 90.660 and 90.660.4 of the Nevada Revised Statutes, and the common law of Nevada relating to the Company's registration statement and other public disclosures. As a consequence of an Order of the Court granting in part defendants' motion to dismiss the complaint and a stipulation of the parties, all of plaintiff's claims other than those arising under the Securities Act of 1993, and limited to certain specified statements in the Company's registration statement, were dismissed without prejudice. Pursuant to a stipulation of the parties, the Court provisionally agreed to treat the remaining claims as class claims.

After the close of discovery, plaintiffs moved for leave to amend their complaint to add allegations with respect to an additional claimed omission in the registration statement. Shortly thereafter, the Company moved for summary judgment seeking dismissal of the complaint. Following a hearing on July 31, 1996, the Court entered an Order (i) denying plaintiffs' motion to amend the complaint and (ii) granting the Company's (and the other defendants') motion for summary judgment, and on August 9, 1996 the Court entered final judgment dismissing the action. Plaintiffs subsequently moved for reconsideration of the grant of summary judgment against them, and the court denied their motion. Plaintiffs have filed a timely appeal to the United States Court of Appeals for the Ninth Circuit.

ITEM 4. CONTROL OF REGISTRANT

- (a) The registrant is not controlled by another corporation or any foreign government.

- (b) The following table outlines the owners of more than ten percent (10%) of the registrant's common stock and the amount of common stock owned by the officers and directors as a group, as of December 1, 1996:

<u>Title of Class</u>	<u>Identity of Person or Group</u>	<u>Amount Owned</u>	<u>Percent of Class</u>
Common stock	Robert E. Davids	5,180,000	25.0%
Common stock	Star Journey Ltd.	4,845,200	23.4%
Common stock	Officers & Directors as a Group	7,536,200	36.4%

In addition to the foregoing, the Company is aware of two other significant shareholders, each of whom owns slightly less than 10% of the Company's common stock. These are (i) the Hansen Trust (including shares owned by the John N. Hansen Estate) and (ii) a group of related persons which includes Dito-Devcar Corporation. Mrs. Mary J. Hansen, the widow of John N. Hansen, is a Director of the Company. The Company understands that the Dito-Devcar group may be negotiating with Star Journey Ltd. to purchase some or all of the Company shares owned by Star Journey Ltd. The Company expects to update this information in its Proxy Statement for its 1997 Annual Shareholders' Meeting.

- (c) Subject to the foregoing, there are no arrangements known to the registrant which may at a subsequent date result in a change of control of the registrant.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's common stock is traded on the NASDAQ National Market under the symbol RADAF. The Company's common stock is not traded on any foreign trading market. The following table lists the high and low closing stock price for each quarter of fiscal 1996, fiscal 1995 and fiscal 1994.

	<u>Fiscal year 1996</u>		<u>Fiscal year 1995</u>		<u>Fiscal year 1994</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
	\$	\$	\$	\$	\$	\$
First Quarter . . .	2 1/2	1 1/8	7	4 3/4	N/A	N/A
Second Quarter . .	2	1 1/4	5	3	N/A	N/A
Third Quarter . . .	1 15/16	15/16	3 3/4	2 1/2	11 1/2	4 5/8
Fourth Quarter . .	1 3/4	3/4	3	1 3/8	7	4 3/4

Radica Games Limited was formed in 1994 as a holding company and has not paid any dividends. Prior to the Company's initial public offering, Radica HK paid a \$3.1 million dividend declared in fiscal

1993 to its shareholders and Radica USA paid no dividends. As part of the reorganization, prior to the initial public offering, Radica USA distributed to its shareholders all of its previously earned and undistributed taxable S Corporation earnings through the date of termination of its S Corporation status (\$3,704,475). Except to the extent set forth below, the Company intends to retain its earnings for operations and expansion of its business for the foreseeable future. The payment of any future dividends will be at the discretion of the Board of Directors and will depend upon, among other factors, the Company's earnings, financial condition, capital requirements and general business outlook at the time the payment is considered. The Company intends to make cash distributions at the end of its taxable year at least equal to 50% of its foreign personal holding company income for any year in which it is a personal foreign holding company. (See Item 7. Taxation.)

As of October 31, 1996, the Company had approximately 111 record holders of its Common Stock, and approximately 47% of such stock was held by U.S. holders.

ITEM 6. EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS

The Company has been designated as a non-resident of Bermuda for exchange control purposes by the Bermuda Monetary Authority.

The transfer of shares of the Company between persons regarded as resident outside Bermuda for exchange control purposes and the issue of shares to or by such persons may be effected without specific consent under the Exchange Control Act 1972 and regulations thereunder subject to such shares being listed on the National Association of Securities Dealers Automated Quotation System or other appointed stock exchange (as defined in the Companies Act 1981 of Bermuda). Issues and transfers of shares involving any person regarded as resident in Bermuda for exchange control purposes require specific prior approval under the Exchange Control Act 1972.

There are no limitations on the rights of non-Bermuda resident holders of the Common Stock to hold or vote their shares. Because the Company has been designated as non-resident for Bermuda exchange control purposes, there are no restrictions on its ability to transfer funds in and out of Bermuda or to pay dividends to United States residents who are holders of the Common Stock, other than in respect of local Bermuda currency.

In accordance with Bermuda law, share certificates are only issued in the names of corporations or individuals. In the case of an applicant acting in a special capacity (for example, as an executor or trustee), certificates may, at the request of the applicant, record the capacity in which the applicant is acting. Notwithstanding the recording of any such special capacity, the Company is not bound to investigate or incur any responsibility in respect of the proper administration of any such estate or trust.

The Company will take no notice of any trust applicable to any of its shares whether or not it had notice of such trust.

As an exempted company, the Company is exempt from the usual Bermuda requirement which restricts the percentage of share capital that may be held by non-Bermudians, but as an exempted company the Company may not participate in certain business transactions, including: (1) the acquisition or holding of land in Bermuda (except that required for its business and held by way of lease or tenancy

for terms of not more than 21 years); (2) the taking of mortgages on land in Bermuda to secure an amount in excess of \$50,000 without the consent of the Minister of Finance of Bermuda; (3) the acquisition of securities created or issued by, or any interest in, any local company or business, other than certain types of Bermuda government securities or securities of another exempted company, partnership or other corporation resident in Bermuda but incorporated abroad; or (4) the carrying on of business of any kind in Bermuda, except in furtherance of the business of the Company carried on outside Bermuda or under a license granted by the Minister of Finance of Bermuda.

ITEM 7. TAXATION

The following discussion is a summary of certain anticipated tax consequences of the ownership of Common Stock under Bermuda tax laws, Hong Kong income tax laws and United States Federal income tax laws. The discussion does not deal with all possible tax consequences relating to the Company's operations or to the ownership of Common Stock. In particular, the discussion does not address the tax consequences under State, local and other (e.g., non-Bermuda, non-Hong Kong and non-United States Federal) tax laws. Accordingly, each owner should consult his tax advisor regarding the tax consequences of the ownership of Common Stock. The discussion is based upon laws and relevant interpretations thereof in effect as of the date of this report, all of which are subject to change.

Bermuda Taxation

The Company is incorporated in Bermuda. At date of this filing, there is no Bermuda income, corporation or profits tax, withholding tax, capital gains tax, capital transfer tax, estate duty or inheritance tax payable by shareholders of the Company other than shareholders ordinarily resident in Bermuda. The Company is not subject to stamp or other similar duty on the issue, transfer or redemption of its shares of Common Stock. Furthermore, the Company has received from the Minister of Finance of Bermuda under The Exempted Undertakings Tax Protection Act 1966, an assurance that, in the event that Bermuda enacts any legislation imposing any tax computed on profits or income, or computed on any capital assets, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, the imposition of such tax shall not be applicable to the Company or any of its operations, or to the shares, debentures or other obligations of the Company, until March 28, 2016. This assurance does not, however, prevent the imposition of any such tax or duty on such persons as are ordinarily resident in Bermuda and holding such shares, debentures or obligations of the Company or on land in Bermuda leased or let to the Company.

The United States does not have a comprehensive income tax treaty with Bermuda.

Hong Kong Taxation

Under the laws of Hong Kong, as currently in effect, a holder of Common Stock is not subject to Hong Kong tax on dividends paid with respect to such shares and no holder of Common Stock is liable for Hong Kong tax on gains realized on sale or other disposition of such Common Stock except that Hong Kong profits tax may be chargeable on revenue profits arising on the sale or disposal of the Common Stock where such transactions are or form part of a trade, profession or business carried on in Hong Kong. Hong Kong does not impose a withholding tax on dividends paid by the Company or its subsidiaries. In addition, the Company will not be subject to Hong Kong taxes as a result of its receipt of dividends from any of its subsidiaries.

No Hong Kong stamp duty will be chargeable upon the transfer of Common Stock so long as the register is kept outside Hong Kong at the time of transfer. No Hong Kong estate duty will be chargeable in respect of Common Stock so long as the register is kept outside Hong Kong at the time of death of the relevant holder of Common Stock.

United States Federal Income Taxation

General. The following is a general discussion of the principal U.S. federal income tax consequences to a U.S. Holder (as defined below) of the ownership of Common Stock and does not address the U.S. tax treatment of certain types of investors (e.g., individual retirement and other tax-deferred accounts, life insurance companies, tax-exempt organizations, dealers in securities and persons owning directly or indirectly (under constructive ownership rules) 10% or more of the Common Stock), all of whom may be subject to tax rules that differ significantly from those summarized below.

A "U.S. Holder" is a beneficial owner of Common Stock that is a U.S. citizen or resident, a domestic corporation or otherwise subject to U.S. federal income taxation on a net income basis in respect of the Common Stock.

Dividends. Subject to the FPHC discussion below, a U.S. Holder receiving a distribution on Common Stock will be required to include such distribution in gross income as a dividend to the extent such distribution is paid from current or accumulated earnings and profits of the Company as determined under U.S. federal income tax law. Distributions in excess of the earnings and profits of the Company will first be treated, for U.S. federal income tax purposes, as a nontaxable return on capital to the extent of the U.S. Holder's basis in the Common Stock and then as gain from the sale or exchange of a capital asset. Dividend income with respect to the Common Stock generally will constitute foreign source "passive" income or in the case of certain U.S. Holders "financial services" income for purposes of the foreign tax credit limitation. A corporate shareholder will not be eligible for the dividends received deduction.

Sale or Exchange of Common Stock. Gain or loss on the sale or exchange of the Common Stock by a U.S. Holder generally will be treated as capital gain or loss and will be long-term capital gain or loss if the U.S. Holder has held the Common Stock for more than one year at the time of the sale or exchange. Gain, if any, realized by a U.S. Holder will generally be U.S. source gain.

FPHC Rules. A foreign corporation will be classified as a foreign personal holding company ("FPHC") if (i) five or fewer individuals who are U.S. citizens or residents directly or indirectly own more than 50% of the corporation's stock (measured either by voting power or value) (the "shareholder test") and (ii) more than 50% (or 60%, in certain years) of its gross income, as specially adjusted, consists of foreign personal holding company income (defined generally to include dividends, interest, royalties, rents, gains from the sale of stock or securities and certain other types of passive income) (the "income test"). U.S. citizens or residents, domestic corporations, domestic partnerships and estates or trusts other than foreign estates or trusts who are shareholders of FPHCs ("U.S. shareholders") are required to include in income the undistributed income of a FPHC.

The Company is not a FPHC because the income test was not met in 1996. The Company intends to manage its business such that it will not meet the income test until such time that it begins to receive

significant dividends from its subsidiaries, which is not expected to occur in the foreseeable future. The Company would then be a FPHC only if, in the same taxable year, it also met the shareholder test.

If the Company is a FPHC for any year, each U.S. shareholder who holds Common Stock on the last day of the Company's taxable year (currently, October 31) or, if earlier, on the last day on which the ownership test is met, would be required to include in income as a dividend its pro rata share of the Company's undistributed foreign personal holding company income. The shareholder's tax basis in the Common Stock would be increased by the amount included in income. Such income would be taxable to any such U.S. shareholder as a dividend whether or not distributed in cash. For any year in which the Company is a FPHC, any 5% or greater U.S. shareholder would be required to report on its tax return in complete detail the gross income, deductions and credits, taxable income, FPHC income and undistributed FPHC income of a FPHC. The Company will furnish any shareholder required so to report the information required to be reported. In addition, any holder who acquires Common Stock from a decedent would be denied the date of death value as the tax basis for such Common Stock (which would have a basis equal to the lower of fair market value or the decedent's basis) if the Company was a FPHC with respect to its taxable year next preceding the date of the decedent's death.

For any year in which it is a FPHC, the Company intends to make cash distributions to shareholders of record on the last day of its taxable year in an amount at least equal to 50% of its foreign personal holding company income (which amount should be sufficient for shareholders to pay U.S. federal and state income taxes on such distributions and any undistributed foreign personal holding company income taxable as a dividend).

PHC Rules. A corporation (including a foreign corporation that is not a FPHC) will be classified as a personal holding company ("PHC") if (i) five or fewer individuals (without regard to their citizenship or residence) directly or indirectly own more than 50% in value of the corporation's stock (the "shareholder test") and (ii) at least 60% of its ordinary gross income, as specially adjusted, consists of personal holding company income (defined generally to include dividends, interest, royalties, rents and certain other types of passive income) (the "income test"). A PHC is subject to a U.S. federal income tax of 39.6% on its undistributed personal holding company income (generally limited, in the case of a foreign corporation, to U.S. source income).

The Company is not a PHC as the income test was not met in 1996. The Company intends to cause any subsidiary that is a PHC to make distributions on a basis such that it will not have undistributed personal holding company income.

CFC Rules. A foreign corporation generally is treated as a controlled foreign corporation ("CFC") for U.S. federal income tax purposes if more than 50% of its stock is owned by certain 10% shareholders. The Company believes that it is not currently a CFC because such shareholder test is not met. The treatment of the Company as a CFC would not in any event adversely affect any person who owns (directly or indirectly or by attribution) less than 10% of the Common Stock.

ITEM 8. SELECTED FINANCIAL DATA

The selected financial data below should be read in conjunction with the combined financial statements and notes thereto included elsewhere in this document. The selected income statement and balance sheet data for each of the three years in the period ended October 31, 1996 are derived from

financial statements of the Company which have been audited by Deloitte Touche Tohmatsu, Hong Kong, independent auditors and the selected income statement and balance sheet data for the two years ended October 31, 1993 are derived from the audited financial statements of the Company.

	Year Ended October 31,				
	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
	(In thousands, except per share data and margins)				
Income Statement Data:					
Net sales	\$ 9,853	\$32,505	\$72,092	\$32,650	\$47,535
Cost of sales	<u>5,334</u>	<u>16,085</u>	<u>37,823</u>	<u>35,319</u>	<u>31,127</u>
Gross profit	<u>4,519</u>	<u>16,420</u>	<u>34,269</u>	<u>17,331</u>	<u>16,408</u>
Operating expenses:					
Selling, general and administrative	2,422	4,766	13,657	21,631	12,098
Research and development	158	652	1,577	2,141	1,768
Write down of assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,318</u>	<u>-</u>
Total operating expenses	<u>2,580</u>	<u>5,418</u>	<u>15,234</u>	<u>39,090</u>	<u>13,866</u>
Operating income (loss) from continuing operations	1,939	11,002	19,035	(21,759)	2,542
Net interest income (expenses)	<u>(41)</u>	<u>(65)</u>	<u>95</u>	<u>(628)</u>	<u>(175)</u>
Income (Loss) from continuing operations before income taxes and unusual item	1,898	10,937	19,130	(22,387)	2,377
Unusual item	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>709</u>
Income (Loss) from continuing operations before income taxes	1,898	10,937	19,130	(22,387)	3,086
Credit (Provision) for income taxes	<u>(186)</u>	<u>(860)</u>	<u>(1,950)</u>	<u>897</u>	<u>120</u>
Income (Loss) from continuing operations after income taxes	\$ 1,712	\$10,077	\$17,180	\$(21,490)	\$3,206
Discontinued Operations:					
Loss from operation of pub poker business	<u>-</u>	<u>-</u>	<u>(20)</u>	<u>(233)</u>	<u>(1,712)</u>
Net income (loss)	<u>\$ 1,712</u>	<u>\$10,077</u>	<u>\$17,160</u>	<u>\$(21,723)</u>	<u>\$ 1,494</u>
Net income (loss) per share from continuing operations	\$ 0.09	\$ 0.51	\$ 0.81	\$ (0.94)	\$ 0.15
Effect of discontinued operations	<u>-</u>	<u>-</u>	<u>-</u>	<u>(0.01)</u>	<u>(0.08)</u>
Net income/loss per share	<u>\$ 0.09</u>	<u>\$ 0.51</u>	<u>\$ 0.81</u>	<u>\$ (0.95)</u>	<u>\$ 0.07</u>
Weighted average shares outstanding (000)	18,728	19,696	21,308	22,780	21,439
Statistical data:					
Gross margin	45.9%	50.5%	47.5%	32.9%	34.5%
Operating margin	19.7%	33.8%	26.4%	N/A	5.3%
Dividends per share (1)	-	\$ 0.16	\$ 0.17	-	-

(continued)

	October 31,				
	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
	(in thousands)				
Balance Sheet Data:					
Working capital	\$1,887	\$ 7,687	\$39,733	\$15,878	\$18,847
Total assets	5,755	21,826	87,326	54,034	42,725
Long-term debt	600	30	73	99	-
Total debt	1,524	2,849	18,673	14,440	99
Shareholders' equity	3,187	10,365	51,821	30,297	31,813

- (1) During the periods presented the only dividends paid were cash dividends of \$3,064 paid in respect of fiscal 1993 to the then shareholders of Radica HK and \$3,704 paid in respect of fiscal 1994 to the then shareholders of Radica USA following termination of the S Corporation status.

ITEM 9. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Results of Operations

Fiscal 1996 Compared to Fiscal 1995

Net sales for the year ended October 31, 1996 were \$47.5 million, decreasing 9.9% from \$52.7 million for the prior year. Approximately 40.5% of sales related to Casino theme games, 17.3% to Heritage theme games, 18.1% to Sports theme games and 24.1% to Original Equipment Manufacturing "OEM" sales in fiscal 1996 in comparison to 94.5%, 2.9%, 0% and 2.6% in fiscal 1995. During 1996, the Company sold 139 different models of games, totalling 9.0 million units, compared to 104 models totalling 8.6 million units in 1995, an increase of 4.7%. Of the 139 models of Radica and Monte Carlo™ games sold during the period 87 models are discontinued lines, which unless the market warrants reintroduction, the Company only intends to continue selling so long as inventories exist. Twelve new models were sold during 1996 including a Sports line of Casino games, Tournament Golf, Golf Range, World Class Golf, Bass Fishin', King Pin Bowling, 9 Ball Pool, Pinball Rider, Talking Bingo, Hearts and Gin Rummy. The Company intends to introduce over 12 new models in 1997.

The gross profit for fiscal year 1996 was \$16.4 million compared to \$17.3 million for fiscal 1995, a decrease of 5.2%. The gross margin for the year was 34.5% compared to 32.8% for fiscal year 1995. The increase in gross margin was due to the sale of new Sports theme and Heritage theme product at higher margins offset by continued sales of promotional Casino theme product at low margins and lower margin OEM production for the Hasbro Games Group.

Operating profit for fiscal year 1996 before accounting for cessation of Pub Poker business was \$2.5 million, an increase from operating loss of \$21.8 million for fiscal 1995. Operating expenses decreased 64.5% to \$13.9 million from \$39.1 million in 1995. These decreases were primarily due to the effects of the Company's cost cutting program together with lower commissions due to lower sales and a new commission structure and the write down of assets of \$15.3 million in fiscal 1995. Commissions decreased 62.2% to \$1.15 million from \$3.04 million in fiscal 1995; indirect salaries and wages decreased

45.4% to \$3.45 million from \$6.32 million in fiscal 1995; advertising and promotion expenses decreased 76.8% to \$0.72 million from \$3.10 million in fiscal 1995; and research and development expenses decreased 17.3% to \$1.77 million from \$2.14 million in fiscal 1995.

The effective blended tax rate for the year ended October 1996 was a credit of 3.9% on continuing operations compared to a credit of 4.0% for fiscal 1995. This is due to the effective USA tax rate of 34% combined with the 8.25% effective tax rate of the operations in Hong Kong and 0% effective tax rate of the manufacturing operation in China conducted by a British Virgin Islands subsidiary.

After tax profit from continuing operations of \$3.2 million or \$.15 per share for fiscal year 1996 compared to a net loss of \$21.5 million or \$.94 per share in the prior year.

Net profit after discontinued operations for fiscal year 1996 of \$1.5 million or \$.07 per share compared to a net loss for fiscal 1995 of \$21.7 million or \$.95 per share.

Capital Resources and Liquidity

Cash and cash equivalents totalled \$8.5 million at October 31, 1996, up \$0.7 million from year-end 1995. Working capital at October 31, 1996 was \$19.0 million, a \$3.2 million increase from working capital of \$15.8 million at October 31, 1995. The increase in working capital is due primarily to an increase in net income. The ratio of current assets to current liabilities increased to 2.7 at October 31, 1996 from 1.7 at October 31, 1995. This increase in the current ratio is also due to the increases in net income over the same period.

There were no short-term borrowings at October 31, 1996 in comparison to \$14.0 million at October 31, 1995. This decrease was due to the lack of debt required by the Company following the successful implementation of the inventory reduction program.

The Company believes that its existing cash and cash equivalents, cash generated from operations, and current short-term borrowings are sufficient to satisfy the current anticipated working capital needs of its core business.

Fiscal 1995 Compared to Fiscal 1994

Net sales for the year ended October 1995 of \$52.7 million decreased 26.9% from the \$72.1 million for the prior year. Fourteen new ranges of products consisting of 48 new models were introduced during the year, including a new line of products under the high-end brandname of Monte Carlo™. The Monte Carlo™ line included a smaller 'Maverick' slot machine, the 700 series of electronic tabletops, the 1700 series of electronic handheld games, the 1900 series of flipid electronic handheld games, a Blackjack trainer game, Yahtzee™ (which was also produced for the Hasbro Games Group on an OEM basis during the year), the 2200 series of one player flipid handheld games, a tabletop unit with a telephone attached and the 3200 series of handheld games. Other new product ranges included the Bingo Box (an electronic 'talking' Bingo game), Solitaire, Poker Trainer, the 2100 series of flipid electronic one player handheld games and the 2800 and 900 series of handheld games. Approximately 85% of sales related to handheld models and 15% to tabletop models in comparison to 80% and 20% respectively in fiscal 1994. During 1995, the Company sold 78 different models of handheld games, totalling 7.8 million units, compared to 32 models totalling 7.7 million units in 1994 and 26 different models of tabletop

games totalling 0.7 million units, compared to 24 different models and 1.6 million units in 1994. The total number of units sold decreased 7.5% from the 9.2 million sold in 1994 to 8.6 million in 1995.

Gross profit for the year ended October 1995 was \$17.3 million as compared to \$34.2 million for fiscal 1994, a decrease of 49.4%. The gross margin for the year of 32.9% was down from 47.5% for fiscal 1994. This decline is due primarily to sales of promotional items at low margins coupled with provisions for customer returns of \$2.8 million and provisions for retail mark-downs of \$0.46 million to enable customers to lower the price of slow moving inventory, together with sales of promotional product at low margins as part of the Company's inventory reduction program.

Operating expenses increased 157.2% to \$39.1 million from \$15.2 million in 1994. These increases were primarily due to provisions of \$11.9 million against obsolete and slow moving inventory, bad debt provisions of \$1.7 million caused by a number of customers filing for Chapter 11, legal fees and provisions for legal fees in relation to the on-going law suit against the Company of \$0.75 million (the total deductible against the directors and officers insurance policy), the cost of closure of the Mexican plant of \$0.3 million, write off of unamortized mold costs of \$1.5 million, increases in salaries and wages, increases in advertising and promotional costs and other miscellaneous provisions offset by a decrease in commissions due to lower sales. Sales commissions were \$3.0 million compared to \$3.7 million in fiscal 1994, advertising and promotion costs were \$3.1 million compared to \$2.3 million in fiscal 1994, salaries and wages were \$6.3 million compared to \$3.7 million in fiscal 1994 and research and development expenses were \$2.1 million compared to \$1.6 million in fiscal 1994.

Operating loss for the year ended October 1995 was \$21.8 million versus operating income of \$19.0 million for the same period in the prior year due primarily to lower than expected sales, inventory provisions, sales of promotional inventory, provisions for returns, provisions against bad debts and higher operating costs.

The effective blended tax rate for the year ended October 1995 was a credit of 4.0% compared to a rate of 10.2% for fiscal 1994. This is due to the effective USA tax rate of 34% combined with the 8.25% effective tax rate of the operations in Hong Kong and 0% effective tax rate of the manufacturing operation in China conducted by a British Virgin Islands subsidiary.

Net loss for the year ended October 1995 was \$21.7 million, down from net income of \$17.2 million in fiscal 1994. The loss per common share in the year ended October 1995 was \$0.95 as compared to net income per common share of \$.81 for fiscal 1994.

Fiscal 1994 Compared to Fiscal 1993

Net sales for the year ended October 1994 of \$72.1 million increased 122% from the \$32.5 million for the prior year. Eight new ranges of products consisting of 33 new models were introduced during the year, including a range of key-ring games, a range of 'Video' series games, a range of upscale flipid models and the new Riverboat models, a mid-size electronic table top range of games, as well as improvements to some models of existing table top games. Approximately 80% of sales related to handheld models and 20% to tabletop models in comparison to 86% and 14% respectively in fiscal 1993. During 1994, the Company sold 32 different models of handheld games, totalling 7.7 million units, compared to 8 models totalling 3.5 million units in 1993 and 24 different models of tabletop games totalling 1.6 million units, compared to 13 different models and 0.5 million units in 1993. The total number of units sold increased 128% from the 4.1 million sold in 1993. Gross profit for the year

ended October 1994 was \$34.3 million as compared to \$16.4 million for fiscal 1993, an increase of 109%. The gross margin for the year of 47.5% was down from 50.5% for fiscal 1993. This decline is due primarily to peak season inefficiencies in the fourth quarter production ramp up. To a lesser extent, the margin was impacted by the introduction of lower priced products that carry lower margins, primarily the key chain and 'Video' series products.

Operating expenses for the year 1994 were \$15.2 million, up 181% over fiscal 1993. Operating expense increases were due primarily to increases in research and development expenditure, increases in staffing and facilities to support increased sales demand and increased variable expenses associated with the increase in sales. Research and development increased 142% over fiscal 1993 to \$1.6 million. Compensation expenses increased approximately \$2.1 million due to staff increases in Hong Kong and the USA operations to handle increased sales volumes as well as the start-up of the Mexican manufacturing operation. Commissions to outside sales representatives increased by \$3.2 million in the year ended October 1994 as a result of the Company distributing its product through Radica USA instead of using independent distributors.

Operating income for the year ended October 1994 was \$19.0 million versus \$11.0 million for the same period in the prior year, an increase of 73%. The operating margin for the year was 26.4% compared to 33.8% for fiscal 1993 due primarily to increases in operating expenses to support increased sales volumes.

The effective blended tax rate for the year ended October 1994 was 10.2% compared to 7.9% for fiscal 1993. This is due to the fact that the effective USA tax rate of 34% has only been in effect since the Company terminated its S Corporation status on May 20, 1994 and the 8.25% effective tax rate of the operations in Hong Kong and 0% effective tax rate of the manufacturing operation in China conducted by a British Virgin Islands subsidiary.

Net income for the year ended October 1994 was \$17.2 million, up from net income of \$10.1 million in fiscal 1993, an increase of 70%. The net income per common share in the year ended October 1994 was \$0.81 as compared to \$0.51 for fiscal 1993.

ITEM 10. DIRECTORS AND OFFICERS OF REGISTRANT

The following table sets forth the directors and executive officers of the Company.

<u>Name</u>	<u>Term Expires</u>	<u>Residency</u>	<u>Position</u>
Robert E. Davids	1997	Hong Kong	President, Chief Executive Officer and Director
Jon N. Bengtson(1)	1997	USA	Chairman of the Board and Director
David C.W. Howell	1997	Hong Kong	Executive Vice President, Chief Financial Officer, Chief Accounting Officer and Director
Lam Siu Wing	1997	USA	Vice President, Engineering and Director
James J. Sutter(2)	Resigned	Canada	Director
Calvin A.H. Waller(3)	Deceased	USA	Director
Robert Townsend(4)(5)	1997	USA	Director
James O'Toole(4)(5)	1997	USA	Director
Mary Hansen	1997	USA	Director
Patrick Feely(4)(5)(6)	1997	USA	Director
Chan Sai Chung	N/A	Hong Kong	Vice President of Asia Operations
Wong Kam Cheong	N/A	Hong Kong	Manufacturing Director
Hermen H.L. Yau	N/A	Hong Kong	MIS Director
Y.L. Wang	N/A	China	Quality Director
Rick C.K. Chu	N/A	Hong Kong	International Sales Administration Manager
Christopher Dingley	N/A	UK	General Manager, Radica UK Ltd
Michael L. Pikett	N/A	Canada	President, Radica Canada Ltd

(1) Mr. Bengtson was appointed Chairman of the Board of Directors on January 5, 1996 and resigned as Executive Vice President and Chief Operating Officer on that date.

(2) Mr. Sutter resigned as Chairman of the Board of Directors on January 5, 1996 and as a director of the Company on March 13, 1996.

(3) Mr. Waller served as a director of the Company from June 1994 until his death in May 1996.

- (4) Member of the Audit Committee.
- (5) Member of the Compensation Committee.
- (6) Mr. Feely was appointed as an outside director on July 15, 1996.

Pursuant to the Shareholders Agreement between the controlling shareholders and the Company, the full Board of Directors of the Company consists of 11 members, elected as provided in such Shareholders Agreement. As of the date of this filing, eight such directors have been elected and are serving.

Robert E. Davids has been the Chief Executive Officer of the Company since January 1994, and the President and a director since December 1993. Prior to that, Mr. Davids had been the Co-Chief Executive Officer with Mr. James Sutter and a director of Radica HK since he joined the Company in 1988. Mr. Davids has over 30 years experience in the development, design and engineering of non-gambling casino gifts, commercial gaming machines, automobiles and other products. From 1984 until he joined the Company, he was the General Manager of Prospector Gaming Enterprises Inc., a casino in Reno, Nevada. From 1978 through 1984, Mr. Davids served in various positions at IGT, including Director of Special Projects and Director of Engineering.

Jon N. Bengtson, has been Chairman of the Board since January 1996 and has been a director of the Company since January 1994. He is currently the Executive Vice President and Chief Operating Officer of the Sands Regent Hotel and was formerly an Executive Vice President and Chief Operating Officer of the Company from September 1995 to January 1996. He was Chief Financial Officer of the Company from January 1994 to September 1995 and was appointed President and Chief Executive Officer of Radica USA in December 1993. Mr. Bengtson joined The Sands Regent in 1984 and served in various positions, including Vice President of Finance and Administration, Chief Financial Officer, Treasurer and Director, Senior Vice President and Director and Executive Vice President and Director until December 1993. From 1980 to 1984, Mr. Bengtson was a director and served in various positions with IGT, including Treasurer and Vice President of Finance and Administration and Vice President of Marketing. Mr. Bengtson is currently a director of The Sands Regent and its subsidiary, Patrician, Inc.

David C.W. Howell has been Executive Vice President and Chief Financial Officer and a director of the Company since September 1995. Prior to that, he was Vice President and Chief Accounting Officer and a director of the Company from January 1994 to September 1995. From 1992 to 1994, Mr. Howell was Finance Director and Company Secretary of Radica HK. From 1984 to 1991, Mr. Howell was employed by Ernst and Young in London, Hong Kong and Vietnam. He has a BSc from Nottingham University, is a member of the Institute of Chartered Accountants in England and Wales and a fellow of the Hong Kong Society of Accountants.

Lam Siu Wing has been Vice President, Engineering and a director of the Company since January 1994. Prior to that, he had been the head of the Radica HK engineering department for eight years since he joined the Company in 1985. Mr. Lam has over 13 years of experience in plastic design and production engineering. Prior to joining the Company, he served as a project designer in the electrical appliance industry. Mr. Lam has a post graduate diploma in Engineering Management from City Polytechnic of Hong Kong.

Robert Townsend has been a director of the Company since June 1994. He is best known as the author of "Up the Organization" and "Further Up the Organization". Mr. Townsend formerly held positions with Avis as its President and Chief Executive Officer and American Express as Senior Vice President of International Banking, Investment and Planning.

James O'Toole has been a director of the Company since June 1994. He is Vice President of the Aspen Institute where he heads the Executive Seminar and directs the Corporate Leaders Forum, a consortium of twenty corporations dedicated to preparing the next generation of their executives to lead change. Mr. O'Toole retired in 1994 from the faculty of the Graduate School of Business at the University of Southern California after a career of more than twenty years, where he held the University Associates' Chair of Management.

Mary Hansen has been a director of the Company since April 1995. Mrs. Hansen is currently Chairman of the Board of the John N. Hansen Company which distributes novelty goods and toys.

Patrick Feely has been a director of the Company since July 1996. He is President of Fun Source, a Strottman International, Inc. Company. Previously, he was President and CEO of Spectrum HoloByte, Inc. from 1993 to 1995, President of Bandai America, Inc. from 1991 to 1992, founder and President of Toy Soldiers, Inc. (which merged with Bandai America) from 1988 to 1991 and President of the Tonka Products Division of Tonka, Inc. from 1986 to 1988. Mr. Feely was also Director of the Toy Manufacturers Association from 1992 to 1995. He has a BA from Duke University and an MBA from the University of Michigan.

Chan Sai Chung has been Vice President of Asia Operations of the Company since October 1995. Prior to that, he was Technology Director of the Company from June 1994 to October 1995. From 1980 to 1994, Mr. Chan served in various positions with Digital Equipment International Limited, including Manufacturing Engineering Manager and Technology Manager. He graduated from the Hong Kong Polytechnic and has an MSc from the University of Warwick.

Wong Kam Cheong has been the Director of Manufacturing for the Company since June 1994. Mr. Wong has over 17 years of experience in product design, R&D, production and sales in toys, consumer electronics and the electrical appliance industry. Mr. Wong has a BSc in Mechanical Engineering from Taiwan University, a post graduate diploma in Manufacturing Technology from City University, London and is a member of the Institute of Management, UK.

Hermen H.L. Yau has been the MIS Director of the Company since March 1, 1994. From 1982 to 1994, he worked in Outboard Marine Corporation Asia Ltd in various positions in the Systems & Data Processing Department. He has more than 15 years experience in Information Technology and particular experience in IBM mid-range computer systems and solutions. He has a Higher Diploma in Computer Studies from the National Computing Center UK and a Diploma in Management Studies from the Hong Kong Polytechnic and Hong Kong Management Association.

Y.L. Wang has been the Quality Director of the Company since December 1993. Prior to that, he was Head of the Quality Assurance Section of Foxboro Co. Ltd in Shanghai from 1986 to 1993 and a Quality Control Engineer from 1982 to 1986.

Rick C.K. Chu has been the International Sales Administration Manager of the Company since April 1994. He has more than 15 years experience in international trade and business management. From 1988 to 1994, he was the Senior Manager managing the sales administration function and marketing of industrial materials for a leading trading company in Hong Kong.

Christopher Dingley has been the General Manager and Company Secretary of Radica UK since January 1995. From January 1991 to December 1994 he acted for Radica as Manager of European Operations. From 1987 to 1991 he was the Sales Manager for Export Military Sales in the UK. Prior to that he worked for Chrysler Military Sales in Germany, Italy and the UK from 1982 to 1986.

Michael L. Pikett has been President of Radica Canada Ltd since October 1994. From 1993 to 1994 Mr. Pikett was employed as a Commercial Attache for the Government of Quebec in Toronto. From 1986 to 1993 Mr. Pikett was employed as Vice President-General Manager Melitta Canada Inc. He was the Director of Sales for J.M. Schneider Inc. from 1980 to 1985. Mr. Pikett has over 28 years senior management experience in the Canadian market. He was born and educated in the UK, moving to Canada in 1968.

ITEM 11. COMPENSATION OF OFFICERS AND DIRECTORS

Compensation

In fiscal 1996, the aggregate amount of compensation paid to all executive officers and directors as a group for services in all capacities was approximately \$806,727.

Each outside (i.e., non-employee and non-affiliated) director of the Company receives a \$10,000 annual fee payable in quarterly installments, a fee of \$600 for attendance at each meeting of the Board of Directors and a fee of \$600 for attendance at each Committee meeting. Directors who are employees or affiliates of the Company will not be paid any fees or additional remuneration for service as members of the Board of Directors or its Committees.

Prior to fiscal year 1996, each outside director received non-qualified stock options to purchase 30,000 shares of Common Stock of the Company upon initial election to the Board of Directors at an exercise price equal to the public offering price (\$11.00 per share) of the Company's Common Stock and exercisable after one year from the date of grant. On July 15, 1996, one outside director was appointed and received non-qualified stock options to purchase 30,000 shares of Common Stock of the Company at an exercise price equal to the average of bid and asked closing price (\$1.1255) on such date. Upon each re-election to the Board of Directors in 1995 and 1996, each outside director received non-qualified stock options to purchase 5,000 shares of Common Stock of the Company at \$3.66 per share and \$1.50 per share, respectively. Upon re-election to the Board of Directors in 1997 and thereafter, each outside director will receive non-qualified stock options to purchase 5,000 shares of Common Stock of the Company at an exercise price equal to the then current market price of the Company's Common Stock. These subsequent options are also exercisable after one year from the date of grant.

Employment Agreements

Messrs. Davids and Bengtson have each entered into individual employment agreements with the Company. The employment agreements are for periods of two years each, from December 1995 for Mr.

Bengtson and from April 1996 in the case of Mr. Davids. Each Employment Agreement is terminable by the Company for cause. Messrs. Davids and Bengtson shall each receive minimum annual base salaries of \$182,000 and \$18,000, respectively. However, during fiscal 1996, Mr. Davids opted to receive a salary of \$1. The agreement with Mr. Bengtson, as amended in December 1995, is for part-time consulting services. The Employment Agreement for Mr. Davids contains certain restrictions on his involvement in businesses other than the Company during his course of employment and certain provisions applicable after termination of employment which prohibit the solicitation of customers and other employees of the Company, employment or engagement with competing entities, or the disclosure of proprietary information of the Company. The agreement for Mr. Davids also requires that the Company provide him with a residence in Hong Kong.

ITEM 12. OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT OR SUBSIDIARIES

The Company's 1994 Stock Option Plan provides for the granting of stock options to directors, officers and employees of the Company. The Stock Option Plan is administered by the Compensation Committee of the Board of Directors. Subject to the provisions of the Stock Option Plan, the Compensation Committee shall have sole authority to determine which of the eligible directors and employees of the Company shall receive stock options, the terms, including applicable vesting periods, of such options, and the number of shares for which such options shall be granted.

The total number of shares of the Company's Common Stock that may be purchased pursuant to stock options under the Stock Option Plan shall not exceed in the aggregate 1.6 million shares. The option price per share with respect to each such option shall be determined by the Compensation Committee but shall be not less than 100% of the fair market value of the Company's Common Stock on the date such option is granted as determined by the Compensation Committee. Ordinarily, twenty percent of the stock options vest and become exercisable on each of the first five anniversaries of the date of grant, and all of the options expire in ten years. The Stock Option Plan terminates in 2004 unless terminated earlier.

In fiscal years 1994 and 1995, an aggregate of 1,181,000 options (exclusive of the outside directors' options referred to above, and net of stock options that were both issued and cancelled in such years) were granted to directors, officers and other employees under the Stock Option Plan to purchase the Company's shares at exercise prices ranging from \$8.50 to \$8.53 per share. In addition, Mr. Bengtson was granted options under his employment agreement, as amended, to purchase 75,200 shares of the Company's Common Stock at an exercise price of \$0.57 per share, which options are now fully vested.

On January 4, 1996, the Company's Board of Directors authorized the officers of the Company to make offers to holders of options under the Company's Stock Option Plan (excluding the option plan for the Company's outside directors), in which each holder was offered the right to surrender existing options for cancellation, and receive new stock options for the same number of shares at a new exercise price (equal to \$1.38 per share, the market price on January 4, 1996), and subject to the commencement of a new vesting period. The term of the new options will not extend beyond the ten-year period of the original options surrendered. The effect of this authorization was that holders of options who elected to surrender their previous options received new options at a lower exercise price subject to starting a new vesting period. The holders of 916,000 options previously granted accepted such offers.

In fiscal year 1996, an aggregate of 30,000 options (exclusive of the outside directors' options and the options issued in exchange for prior options, as referred to above, and net of stock options that were both issued and cancelled in the year) were granted to directors, officers and other employees under the Stock Option Plan to purchase the Company's shares at an exercise price of \$1.38 per share.

As a result of the foregoing, at the end of fiscal year 1996, after giving effect to all prior exercises and cancellations of options, an aggregate of 1,021,200 options (exclusive of the outside directors' options) were outstanding at exercise prices ranging from \$8.50 to \$0.57 per share, and of such amount a total of 661,200 options were held by directors and executive officers of the Company as a group. Also, an aggregate of 145,000 outside director's options were outstanding at exercise prices ranging from \$11.00 to \$1.1255 per share.

Additional information with respect to stock options is contained in Note 11 of the Notes to Consolidated Financial Statements included in this filing.

ITEM 13. INTEREST OF MANAGEMENT IN CERTAIN TRANSACTIONS

In February 1994, prior to the Company's initial public offering, Messrs. Davids, Sutter and the Hansen Trust sold an aggregate of 2,100,000 shares of the Company's Common Stock to IGT. In fiscal year 1996, the 2,100,000 shares of the Company owned by IGT were transferred back to the Company as part of a settlement of disputes between the Company and IGT relating to original equipment manufacturing by the Company for IGT which never come to fruition, and such shares are no longer outstanding.

Messrs. Davids and Sutter, the Hansen Trust, IGT and the Company were parties to a shareholders agreement (the "Shareholders Agreement") which provides for certain matters relating to the management of the Company and ownership of its Common Stock. The Shareholders Agreement provides that the full Board of Directors should consist of 11 directors and that so long as each party other than the Company (each, a "Shareholder", and collectively the "Shareholders") owns at least 5% of the Company's outstanding Common Stock, each such Shareholder will be entitled to elect one Director at any meeting at which Directors are to be elected. IGT and Mr. Sutter no longer have rights pursuant to the Shareholders Agreement since they have disposed of their shares in the Company. However, Star Journey Limited, as holder of shares previously owned by Mr. Sutter, may have rights and obligations under the Shareholders Agreement, but to date the parties to the Shareholders Agreement have not had occasion to determine the status of Star Journey Limited thereunder.

The Shareholders Agreement also provides that the Board of Directors should include four independent directors, each of whom must be acceptable to the Shareholders, and three directors (each a "Company Director") nominated by the majority of the directors (other than the existing Company Directors) then in office. One of the Company Directors initially was Mr. Bengtson. The Shareholders Agreement sets forth certain other matters relating to the election and removal of directors. To date, the Company has never had a full complement of directors since the Company and the Shareholders have never fully exercised their rights under the Shareholders Agreement.

In addition to restrictions imposed by U.S. securities laws and Bermuda law, the Shareholders Agreement prohibits transfers of shares of Common Stock by the Shareholders, except (a) transfers to

certain specified family members or other permitted transferees, (b) transfers in accordance with the right of first refusal provisions (as described below), (c) transfers pursuant to Rule 144 under the Securities Act (so long as the transferee does not thereafter own 5% or more of the votes represented by the then outstanding Common Stock), and (d) transfers made in connection with the exercise of any Shareholders' registration rights (as described below).

The Shareholders Agreement provides that each of the Shareholders (other than the Hansen Trust) has a right of first refusal on the Common Stock owned by the other Shareholders having such right, which entitles such Shareholder to purchase any shares of Common Stock that the others propose to transfer to a third party, on the same terms as such proposed transfer.

Pursuant to the Shareholders Agreement, the Company has agreed, at anytime after February 16, 1996 and subject to certain specified conditions, to use its reasonable efforts to prepare and file one registration statement on behalf of each Shareholder (the "Demand Registration Rights") under the Securities Act of 1933, and to use its reasonable efforts to qualify the shares for offer and sale under any applicable U.S. state securities laws. The Shareholders Agreement also grants each Shareholder certain "piggyback" registration rights entitling each Shareholder, at any time after February 16, 1996 to sell Common Stock in certain registered offerings of equity securities of the Company. These "piggyback" registration rights are exercisable by each Shareholder only twice. The foregoing registration rights are subject to other limitations set forth in the Shareholders Agreement.

The Shareholders Agreement provides that the foregoing restrictions on transfer, rights of first refusal and provisions relating to the election of directors will terminate on March 31, 2004.

ITEM 14. DESCRIPTION OF SECURITIES TO BE REGISTERED

Not Applicable

PART III

ITEM 15. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 16. CHANGES IN SECURITIES AND CHANGES IN SECURITY FOR REGISTERED SECURITIES

None

PART IV

ITEM 17. FINANCIAL STATEMENTS

Not Applicable

ITEM 18. FINANCIAL STATEMENTS

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ITEM 19. FINANCIAL STATEMENTS AND EXHIBITS

(a) Financial Statements

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(b) Exhibits

- * 3.1 Memorandum of Association
- * 3.2 Bye-Laws
- * 3.3 Certificate of Incorporation on Change of Name
- * 4.1 Specimen Certificate for the Shares of Common Stock
- * 10.1 Processing Agreement, dated December 4, 1991, between Radica HK and foreign Economic Development Co. of Humen Town, Dongguan, relating to the Tai Ping Factory
- * 10.2 Processing Agreement, dated December 27, 1993, between Radica HK and Foreign Economic Development Co. of Humen Town, Dongguan
- * 10.3 [Reserved]

- * 10.4 Shareholders Agreement, dated January 12, 1994, among the Company and the shareholders parties thereto
- * 10.5 Amendment to Shareholders Agreement, dated as of February 16, 1994, among the Company and the shareholders party thereto.
- * 10.6 Form of Employment Agreement, between Radica Games Limited and Robert E. Davids
 - 10.6(a) April 1996 Amendment to such Employment Agreement.
- * 10.7 [Reserved]
- * 10.8 Employment Agreement, dated as of November 28, 1993, among Radica HK, Radica USA and Jon N. Bengtson
 - *10.8(a) Form of Amendment to Employment Agreement among Radica Games Limited, Radica HK, Radica USA and Jon N. Bengtson.
 - 10.8(b) December 1995 Amendment to such Employment Agreement.
- *10.9 1994 Stock Option Plan
- *10.10 [Reserved]
- *10.11 [Reserved]
- *10.12 [Reserved]
- *10.13 [Reserved]
- *10.14 Form of Common Stock Purchase Agreement, for Radica USA, between Radica Games Limited and the Sellers named therein
- *10.15 Form of Common Stock Purchase Agreement, for Disc, Inc., between Radica Games Limited and the Sellers named therein
- @10.16 Cooperative Joint Venture Contract of D.G. Radica Games Manufacturing Co., Ltd., dated June 24, 1994
 - 11.1 Statement re Computation of Per Share Earnings
 - 21.1 List of subsidiaries
 - 23.1 Consent of Deloitte Touche Tohmatsu

+ 23.2 Consent of Deloitte Touche Tohmatsu of change in accounting policy

- * Incorporated by reference to Registration Statement on Form F-1, File No. 33-75794 filed by the Registrant.**
- @ Incorporated by reference to Form 20-F for the year ended 31st October 1994.**
- + Incorporated by reference to Form 20-F for the year ended 31st October 1995.**

RADICA GAMES LIMITED
CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of Radica Games Limited

We have audited the accompanying consolidated balance sheets of Radica Games Limited and subsidiaries as of October 31, 1996 and 1995, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended October 31, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Radica Games Limited and subsidiaries as of October 31, 1996 and 1995, and the results of its operations and its cash flows for each of the three years in the period ended October 31, 1996, in conformity with accounting principles generally accepted in the United States of America.

/S/ Deloitte Touche Tohmatsu

HONG KONG
December 16, 1996

RADICA GAMES LIMITED
CONSOLIDATED BALANCE SHEETS
(US dollars in thousands)

	At October 31,	
	1996	1995
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,527	\$ 7,757
Short-term investments (Note 8)	77	3,228
Accounts receivable, net of allowances for doubtful accounts of \$234 and \$1,572 in 1996 and 1995 and estimated customer returns of \$817 and \$1,790 in 1996 and 1995	9,624	10,242
Inventories net of provision of \$8,419 in 1996 and \$11,873 in 1995 (Note 4)	10,984	16,472
Prepaid expenses and other current assets	547	531
Income taxes receivable	-	1,306
Total current assets	29,759	39,536
Property, plant and equipment -- net (Note 5)	12,937	14,468
Deferred income taxes (Note 6)	29	29
Other assets	-	21
Total assets	\$ 42,725	\$ 54,054

See accompanying notes to consolidated financial statements.

RADICA GAMES LIMITED
CONSOLIDATED BALANCE SHEETS
(US dollars in thousands, except share data)

	At October 31,	
	1996	1995
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Short-term borrowings (Note 8)	\$ -	\$ 13,970
Current portion of long-term debt (Note 9).....	99	371
Accounts payable	5,535	3,006
Accrued payroll and employee benefits	686	241
Accrued expenses	4,547	6,070
Income tax payable	45	-
Total current liabilities	10,912	23,658
Long-term debt (Note 9)	-	99
Shareholders' equity:		
Common stock, par value \$0.01 each, 100,000,000 shares authorised, 20,680,000 shares outstanding (22,780,000 at October 31, 1995) (Note 10)	207	228
Additional paid-in capital	28,371	28,328
Retained earnings	3,214	1,720
Cumulative translation adjustment	21	21
Total shareholders' equity	31,813	30,297
Total liabilities and shareholders' equity	\$ 42,725	\$ 54,054

See accompanying notes to the consolidated financial statements.

RADICA GAMES LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS

(US dollars in thousands, except per share data)

	Year ended October 31,		
	1996	1995*	1994*
Net Sales:			
Net sales to unaffiliated customers	\$ 47,535	\$ 52,650	\$ 69,757
Net sales to related parties	-	-	2,335
Total net sales	47,535	52,650	72,092
Cost of sales	31,127	35,319	37,823
Gross profit	16,408	17,331	34,269
Operating expenses:			
Selling, general and administrative expenses	12,098	21,631	13,657
Research and development	1,768	2,141	1,577
Write down of assets (Note 12)	-	15,318	-
Total operating expenses	13,866	39,090	15,234
Operating income (loss) from continuing operations	2,542	(21,759)	19,035
Net interest (expense) income	(165)	(628)	95
Income (Loss) from continuing operations before income taxes and unusual item	2,377	(22,387)	19,130
Unusual item (Note 3)	709	-	-
Income (Loss) from continuing operations before income taxes	3,086	(22,387)	19,130
Credit (Provision) for income taxes (Note 6)	120	897	(1,950)
Income (Loss) from continuing operations after income taxes	3,206	(21,490)	17,180
Discontinued operation: (Note 7)			
Loss from discontinued pub poker business (less applicable income tax benefit of \$0, \$110 and \$0 in 1996, 1995 and 1994 respectively) ...	(1,712)	(233)	(20)
Net income (loss)	\$ 1,494	\$ (21,723)	\$ 17,160
Income (Loss) per share from continuing operations	\$ 0.15	\$ (0.94)	\$ 0.81
Effect of discontinued operation	(0.08)	(0.01)	-
Net income (loss) per share	\$ 0.07	\$ (0.95)	\$ 0.81
Average number of shares outstanding	21,439,452	22,780,000	21,308,000

* Restated for the effects of the discontinued operation.

See accompanying notes to the consolidated financial statements.

RADICA GAMES LIMITED

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(US dollars in thousands)

	<u>Common stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Cumulative</u>	<u>Total</u>
	<u>Number</u>	<u>Amount</u>	<u>paid-in</u>	<u>earnings</u>	<u>translation</u>	<u>shareholders'</u>
	<u>of shares</u>		<u>capital</u>		<u>adjustment</u>	<u>equity</u>
Balance at November 1, 1993	19,997	\$ 20	\$ 157	\$ 10,167	\$ 21	\$ 10,365
Issue of shares:						
1,000-for-one common stock split	19,977,003	180	-	(180)	-	-
Public offering	2,783,000	28	27,796	-	-	27,824
Grant of stock option	-	-	176	-	-	176
Net income	-	-	-	17,160	-	17,160
Dividends	-	-	-	(3,704)	-	(3,704)
Balance at October 31, 1994	22,780,000	228	28,129	23,443	21	51,821
Grant of stock option	-	-	199	-	-	199
Net loss	-	-	-	(21,723)	-	(21,723)
Balance at October 31, 1995	22,780,000	228	28,328	1,720	21	30,297
Cancellation of common stock (Note 10) ..	(2,100,000)	(21)	21	-	-	-
Grant of stock option	-	-	22	-	-	22
Net income	-	-	-	1,494	-	1,494
Balance at October 31, 1996	20,680,000	\$ 207	\$ 28,371	\$ 3,214	\$ 21	\$ 31,813

See accompanying notes to consolidated financial statements.

RADICA GAMES LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS
(US dollars in thousands)

	Year ended October 31,		
	1996	1995	1994
Cash flow from operating activities:			
Net income (loss)	\$ 1,494	\$ (21,723)	\$ 17,160
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Deferred income taxes	-	159	(146)
Depreciation and amortization	1,594	1,591	839
(Gain) Loss on disposal and write off of property, plant and equipment	(97)	642	-
Write off of molds	-	1,478	-
Write off of other assets	-	172	-
Provision for compensation expense related to stock options	22	199	176
Effect on mark to market of money market funds	-	2	-
Changes in assets and liabilities:			
Accounts receivable	618	15,735	(20,391)
Inventories	5,488	16,750	(26,763)
Prepaid expenses and other current assets	(16)	1,167	(1,540)
Receivables from related parties	-	-	2,175
Accounts payable	2,529	(7,395)	6,735
Accrued payroll and employee benefits	445	(114)	211
Accrued expenses	(1,523)	2,144	3,169
Income taxes payable	1,351	(3,456)	1,130
Net cash provided by (used in) operating activities	11,905	7,351	(17,245)
Cash flow from investing activities:			
Proceeds from sale of property, plant and equipment	929	-	-
Purchase of property, plant and equipment	(874)	(6,371)	(9,743)
Proceeds from the sales of money market funds	3,151	-	(3,230)
Increase in other assets	-	-	(167)
Net cash provided by (used in) investing activities	3,206	(6,371)	(13,140)
Cash flow from financing activities:			
Funds from sale and lease back arrangements	-	488	-
(Repayment of) funds from note payable	-	(3,000)	3,000
Dividends paid	-	-	(6,729)
Issue of common stock, net	-	-	27,824
(Decrease) increase in short-term borrowings	(13,970)	(1,503)	12,730
Repayment of long-term debt	(371)	(246)	(100)
Net cash (used in) provided by financing activities	(14,341)	(4,261)	36,725

RADICA GAMES LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS
(US dollars in thousands)

	Year ended October 31,		
	<u>1996</u>	<u>1995</u>	<u>1994</u>
Net increase (decrease) in cash and cash equivalents	\$ 770	\$ (3,281)	\$ 6,340
Cash and cash equivalents:			
Beginning of year	<u>7,757</u>	<u>11,038</u>	<u>4,698</u>
End of year	<u>\$ 8,527</u>	<u>\$ 7,757</u>	<u>\$ 11,038</u>
Supplementary disclosures of cash flow information:			
Cash paid (received) during the period for:			
Interest	\$ 413	\$ 1,374	\$ 256
Income taxes	(1,471)	2,399	966
Non cash transactions:			
Property, plant and equipment acquired under capital leases	-	28	194

See accompanying notes to the consolidated financial statements.

RADICA GAMES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(US dollars in thousands)

1. ORGANIZATION AND BASIS OF FINANCIAL STATEMENTS

The consolidated financial statements include the accounts of the Company and all subsidiaries. All significant intra-group transactions and balances have been eliminated on consolidation.

The Company designs, develops, manufactures and distributes a variety of electronic handheld and mechanical games.

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and are presented in U.S. dollars as the Company's sales are predominantly denominated in U.S. dollars.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents -- Cash and cash equivalents include cash on hand, cash accounts, interest-bearing savings accounts, and time certificates of deposit with a maturity at purchase date of three months or less.

Inventories -- Inventories are stated at the lower of cost, determined by the weighted average method, or market. Provision for potentially obsolete or slow-moving inventory is made based on managements' analysis of inventory levels and future expected sales.

Depreciation and amortization of property, plant and equipment -- Depreciation is provided on the straight line method at rates based upon the estimated useful lives of the property, generally not more than seven years except for leasehold land and buildings which are 30 years, the term of the lease. Costs of leasehold improvements and leased assets are amortized over the life of the related asset or the term of the lease, whichever is shorter.

Upon sale or retirement, the costs and related accumulated depreciation or amortization are eliminated from the respective accounts and any resulting gain or loss is included in income.

Mold costs -- The Company expenses all mold costs in the year of purchase or for internally produced molds, in the year of construction.

Revenue recognition -- Revenues are recognized as sales when merchandise is shipped. The Company permits the return of damaged or defective products and accepts limited amounts of product returns in certain other instances. Accordingly, the Company provides allowances for the estimated amounts of these returns at the time of revenue recognition, based on historical experience adjusted for known trends.

RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
(US dollars in thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments -- Debt and equity securities which the Company has both the positive intent and ability to hold to maturity are classified as held-to-maturity and carried at amortized cost. Debt and equity securities which might be sold prior to maturity are classified as available-for-sale and carried at approximate fair value. Any material unrealized gains and losses related to available-for-sale investments, net of applicable taxes, are reflected in shareholder's equity. The Company determines the appropriate classification of securities at the time of purchase and evaluates such classification as of each balance sheet date.

Income taxes --Income taxes are provided based on an asset and liability approach for financial accounting and reporting of income taxes. Deferred income tax liabilities or benefits are recorded to reflect the tax consequences in future years of differences between the tax basis of assets and liabilities and the financial reporting amounts at each year end. A valuation allowance is recognized if it is more likely than not that some portion of, or all of, a deferred tax asset will be realized.

Foreign currency translation -- Assets and liabilities of foreign operations are translated using year-end exchange rates. Revenues and expenses of foreign operations are translated using average monthly exchange rates. The impact of exchange rate changes is shown as "Cumulative Translation Adjustment" in shareholders' equity. Net losses from foreign exchange transactions of \$102, \$202 and \$470 in 1996, 1995 and 1994 respectively, are included in selling, general and administrative expenses.

Post-retirement and post-employment benefits -- The Company does not provide post-retirement benefits to employees and post-employment benefits are immaterial.

Warranty -- Future warranty costs are provided for at the time of revenue recognition based on management's estimate by reference to historical experience adjusted for known trends.

Stock options -- Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation" has been issued and will be adopted by the Company in the year ended October 31, 1997. The statement includes an optional new method for recognizing compensation expense for employee stock options. The Company is continuing to evaluate whether or not it will change to the new recognition method and, as a result, the Company has not yet determined the effect of adopting SFAS No. 123.

Net income/(loss) per share -- Net income/(loss) per share is based on the weighted average number of shares of common stock and common stock equivalents outstanding. Common stock equivalents result from dilutive stock options. The effect of such common stock equivalents on net income/(loss) per share is computed using the treasury stock method. The weighted average number of shares used in computing net income/(loss) per share were 21,439,452, 22,780,000 and 21,308,000 for 1996, 1995 and 1994 respectively.

RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued) (US dollars in thousands)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates — The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates. Actual results could differ from those estimates.

Reclassifications — Certain reclassifications have been made to prior periods amounts to conform with the 1996 presentation.

3. UNUSUAL ITEM

During the second quarter of 1996, a gain of \$709 was made from the sale of a property in Hong Kong.

4. INVENTORIES

Inventories by major categories are summarized as follows:

	October 31,	
	1996	1995
Raw materials	\$ 1,002	\$ 4,036
Work in progress	2,012	2,576
Finished goods	7,970	9,860
	<u>\$ 10,984</u>	<u>\$ 16,472</u>

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	October 31,	
	1996	1995
Land and buildings	\$ 9,882	\$ 9,628
Plant and machinery	3,031	2,958
Furniture and equipment	2,812	2,849
Leasehold improvements	1,180	1,130
Pub Poker Units	-	476
Total	<u>\$ 16,905</u>	<u>\$ 17,041</u>
Less: Accumulated depreciation and amortization	<u>(3,968)</u>	<u>(2,573)</u>
Total	<u>\$ 12,937</u>	<u>\$ 14,468</u>

RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
(US dollars in thousands)

5. PROPERTY, PLANT AND EQUIPMENT (Continued)

Additions, disposals and depreciation and amortization of property, plant and equipment for each of the three years in the period ended October 31, 1996 are as follows:

	Year ended October 31,		
	1996	1995	1994
Additions	\$ 874	\$ 6,399	\$ 9,937
Disposals -- net book value	220	642	-
Write off of fixed assets	612	1,478	-
Depreciation and amortization	1,573	1,542	788

At October 31, 1995, the carrying value of Pub Poker Units held as fixed assets amounted to \$475. All Pub Poker Units were written off in fiscal 1996.

Included in property, plant and equipment are assets acquired under capital leases with the following net book values:

	October 31,	
	1996	1995
At cost:		
Plant and machinery	\$ 685	\$ 968
Less: accumulated depreciation	(217)	(156)
	<u>\$ 468</u>	<u>\$ 812</u>

Amortization of capital lease assets, which is included in depreciation and amortization expenses in the accompanying statements of operations, were \$137, \$136 and \$60 for the years ended October 31, 1996, 1995 and 1994, respectively.

RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
(US dollars in thousands)

6. INCOME TAXES

The components of income/(loss) from continuing operations before income taxes are as follows:

	Year ended October 31,		
	1996	1995	1994
United States	\$ 910	\$ (17,561)	\$ 5,006
Foreign subsidiaries operating in:			
People's Republic of China	1,348	\$ (5,210)	6,562
Hong Kong	828	384	7,562
	<u>\$ 3,086</u>	<u>\$ (22,387)</u>	<u>\$ 19,130</u>

As the Company's PRC subsidiary is a sino-foreign joint venture enterprise, it is eligible for certain tax holidays and concessions. In addition, under the existing processing arrangement and in accordance with the current tax regulations in the PRC, manufacturing income generated in the PRC is not subject to PRC income taxes.

The credit/(provision) for income taxes consists of the following:

	Year ended October 31,		
	1996	1995	1994
Hong Kong			
Current	\$ 45	\$ (68)	\$ (722)
Deferred	-	(8)	(113)
	<u>\$ 45</u>	<u>\$ (76)</u>	<u>\$ (835)</u>
United States			
State tax benefit/(expense), net of federal tax benefit/(expense)	75	1,125	(1,374)
Deferred	-	(152)	259
	<u>\$ 75</u>	<u>\$ 973</u>	<u>\$ (1,115)</u>
	<u>\$ 120</u>	<u>\$ 897</u>	<u>\$ (1,950)</u>

RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued) (US dollars in thousands)

6. INCOME TAXES (Continued)

A reconciliation between the credit for income taxes computed by applying the statutory tax rates in the United States for 1996, 1995 and 1994 to income/(loss) from continuing operations before income taxes and the actual (provision)/credit for income taxes is as follows:

	Year ended October 31,		
	1996	1995	1994
US Statutory Rate	34%	34%	34%
Credit/(provision) for income taxes at statutory rate on income/loss from continuing operations for the period	\$ (1,049)	\$ 7,612	\$ (6,504)
State income taxes	95	154	(149)
International rate differences	365	(67)	1,323
Accounting (losses)/gains for which deferred income tax cannot be recognised	302	(1,772)	3,589
Decrease/(Increase) in valuation allowance	293	(5,553)	-
Non-taxable recovery of prior federal taxes	-	361	-
Other	114	52	(209)
Income tax credit/(provision)	<u>\$ 120</u>	<u>\$ 787</u>	<u>\$ (1,950)</u>

Deferred income taxes reflect the net tax effect of temporary differences between the amounts of assets and liabilities for income tax purposes compared with the respective amounts for financial statement purposes. At October 31, 1996 and 1995 deferred income taxes comprised:

	October 31,	
	1996	1995
Deferred tax assets (liabilities):		
Excess of tax over financial reporting depreciation	\$ (79)	\$ (79)
Tax losses	2,150	-
Bad debt allowance	25	517
Advertising allowances	88	123
Inventory obsolescence reserve	1,857	4,066
Other	1,248	955
	<u>5,289</u>	<u>5,582</u>
Valuation allowance	<u>(5,260)</u>	<u>(5,553)</u>
	<u>\$ 29</u>	<u>\$ 29</u>

RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued) (US dollars in thousands)

7. DISCONTINUED OPERATION

On July 31, 1996 the Company adopted a plan to discontinue its Pub Poker operations. All products and raw materials relating to Pub Poker were disposed of by October 31, 1996 either by means of sale at discounted prices or by scrapping, and in addition, an after tax operating loss of \$256 was realized. The loss from Pub Poker operations has been accounted for as a discontinued operation and the prior year financial statements have been restated to reflect the discontinued operation.

In 1995 and 1994, the Pub Poker business produced operating losses of \$233 and \$20 respectively. Revenues from Pub Poker for the years ended October 31, 1996, 1995 and 1994 were \$14,000 and \$0 respectively.

8. SHORT-TERM BORROWINGS

These include borrowings in the form of trade acceptances, and overdrafts with various banks.

	Year ended October 31,		
	1996	1995	1994
Credit facilities available at end of period	\$ 5,533	\$ 22,394	\$ 23,484
Utilized at end of period	\$ -	\$ 13,970	\$ 15,473
Weighted average interest rate on borrowings at end of year	N/A	8.74%	10.10%

Interest rates are generally based on the banks' prime rate.

On April 28, 1995, Radica USA entered into a new revolving line of credit with borrowing capacity of \$15,000. Interest was accrued at prime rate based upon the daily outstanding balance. The credit facility was collateralized by a money market fund of \$3,000 owned by Radica Games and all accounts receivable, inventories, general intangibles, chattels, paper and equipment. As of September 30, 1995, Radica USA received notices that it was not in compliance with certain covenants. As a result, Radica USA entered into a Forbearance Agreement in which the borrowing capacity was reduced to \$6,000 with the interest rate at prime plus 1.5% and Radica USA agreed to pay off any remaining balance by April 30, 1996. On December 8, 1995, the outstanding balance under this facility was repaid.

RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
(US dollars in thousands)

9. LONG-TERM DEBT

The long-term debt consists of capital lease obligations and the debt arising from sale and lease back arrangements which at October 31, 1996 bore interest at 13.35% to 13.78% per annum. The debt will mature in the next financial year.

10. COMMON STOCK

During fiscal 1996, 2,100,000 shares previously owned by International Game Technology (IGT) were cancelled as consideration for the Company's agreement to dissolve a contract with IGT. A corresponding amount was transferred to additional paid-in capital.

11. STOCK OPTIONS

In December 1993, an officer was granted an option under his employment agreement to purchase 188,000 shares of common stock of Radica Games at an exercise price of \$0.567 per share. In December 1995, 112,800 of these options were cancelled. The remaining 75,200 options are fully vested and expire on October 31, 2003.

The Company's 1994 Stock Option Plan (the "Stock Option Plan") provides for options to be granted for the purchase of an aggregate of 1,600,000 shares of common stock at per share prices not less than 100% of the fair market value at the date of grant as determined by the Compensation Committee of the Board of Directors. Options under this plan are generally exercisable ratably over five years from the date of grant unless otherwise provided.

In January 1996, due to the reduced market price of Radica Games common stock, the company offered active employees holding outstanding options the opportunity to exchange them for stock options at an exercisable price equal to the fair market value at that time. As a result of the offer, holders of 916,000 options at an exercise price of \$ 8.50 returned their options for cancellation and 916,000 options at an exercise price of \$ 1.375 were granted in exchange. During the fiscal year 1996, 60,000 options at an exercise price of \$8.50 were canceled; 130,000 new options and 100,000 options at an exercise price of \$1.375 were granted and canceled respectively; 30,000 new options at an exercise price of \$1.1255 were granted and 5,000 options at an exercise price of \$1.50 were cancelled.

At October 31, 1996, 946,000 options granted under the Stock Option Plan, exercisable at a price of \$1.375, 10,000 options, exercisable at a price of \$1.50, 15,000 options, exercisable at a price of \$3.66, 90,000 options, exercisable at a price of \$11.00, 30,000 options, exercisable at a price of \$1.1255 and 75,200 options, exercisable at a price of \$0.567 granted under an employment agreement, were outstanding.

RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued) (US dollars in thousands)

12. WRITE DOWN OF ASSETS

During the year ended October 31, 1995, the Company wrote down the following assets:

Inventory -- obsolescence and slow moving reserve	\$ 11,116
Inventory -- market value reserve	757
Accounts receivable -- write off	1,670
Closure of Mexican factory	297
Write off of unamortized mold costs	1,478
	<u>\$ 15,318</u>

13. CONCENTRATIONS OF CREDIT RISK AND MAJOR CUSTOMERS

Accounts receivable of the Company are subject to a concentration of credit risk with customers in the retail sector. This risk is limited due to the large number of customers composing the Company's customer base and their geographic dispersion, though the Company has two customers which accounted for more than twenty and sixteen percent of net sales in fiscal year 1996 and had two customers which accounted for more than thirteen percent each and one customer which accounted for more than ten percent of net sales in fiscal year 1995. The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers.

14. ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." The estimated fair value amounts have been determined by the Company, using available market information and appropriate valuation methodologies. The estimates presented herein are not necessarily indicative of the amounts that the Company could realize in a current market exchange.

The carrying amounts of cash and short-term investments, accounts receivable and accounts payable are reasonable estimates of their fair value.

At October 31, 1996, the Company had letters of credit outstanding totalling \$544 which guarantee various trade activities. The contract amount of the letters of credit is a reasonable estimate of the fair value since the value for each is fixed over the life of the commitment. Approximately 18% of trade receivable balance as of October 31, 1996 was secured by letter of credit.

RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued) (US dollars in thousands)

15. COMMITMENTS AND CONTINGENCIES

The Company leases premises under various operating leases, many of which contain renewal options. Rental expenses under operating leases were \$186, \$466 and \$214 in 1996, 1995 and 1994, respectively.

At October 31, 1996, the Company was obligated under capital leases and operating leases requiring minimum rentals as follows:

	<u>Capital leases</u>	<u>Operating leases</u>
1997	\$ 111	\$ 296
1998	-	303
1999	-	214
2000	-	194
2001	-	198
Total minimum lease payments	<u>111</u>	<u>\$ 1,205</u>
Less: Amount representing interest	<u>(12)</u>	
Present value of minimum lease payments	<u>\$ 99</u>	

At October 31, 1996, certain leasehold land and buildings with a net book value of \$5,101 and bank balances of \$2,710 were pledged to secure general banking facilities including overdraft and trade facilities granted to the Company.

16. RETIREMENT PLAN

The Company has defined contribution retirement plans covering substantially all employees in Hong Kong. Under these plans, eligible employees may contribute amounts through payroll deductions which are 5% or more of individual salary, supplemented by employer contributions ranging from 5% to 10% of individual salary depending on the years of service. The expenses related to these plans were \$141, \$144 and \$49 for the years ended October 31, 1996, 1995 and 1994 respectively.

RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued) **(US dollars in thousands)**

17. LITIGATION

Ten purported class actions filed in various United States District Courts against the Company, various of its officers and directors, and the managing underwriters of the Company's initial public offering have been consolidated in the United States District Court for the District of Nevada under the caption In re Radica Games Limited Securities Litigation, Master File No. CV-S-94-00653-DAE (LRL). Plaintiffs filed a consolidated complaint on November 4, 1994 that superseded all the complaints in the individual actions.

The named plaintiffs originally sought to represent a class consisting of purchasers of the Company's common stock in the initial public offering or in the open market from May 13 through July 22, 1994 and sought unquantified monetary damages and other relief against the defendants for alleged violations of Sections 11, 12(2), and 15 of the Securities Act of 1933, Sections 10b (and Rule 10b-5 thereunder), 20(a), and 20A(a) of the Securities Exchange Act of 1934, Sections 90.570, 90.660 and 90.660.4 of the Nevada Revised Statutes, and the common law of Nevada relating to the Company's registration statement and other public disclosures. As a consequence of an Order of the Court granting in part defendants' motion to dismiss the complaint and a stipulation of the parties, all of plaintiff's claims other than those arising under the Securities Act of 1993, and limited to certain specified statements in the Company's registration statement, were dismissed without prejudice. Pursuant to a stipulation of the parties, the Court provisionally agreed to treat the remaining claims as class claims.

After the close of discovery, plaintiffs moved for leave to amend their complaint to add allegations with respect to an additional claimed omission in the registration statement. Shortly thereafter, the Company moved for summary judgment seeking dismissal of the complaint. Following a hearing on July 31, 1996, the Court entered an Order (i) denying plaintiffs' motion to amend the complaint and (ii) granting the Company's (and the other defendants') motion for summary judgment, and on August 9, 1996 the Court entered final judgment dismissing the action. Plaintiffs subsequently moved for reconsideration of the grant of summary judgment against them, and the court denied their motion. Plaintiffs have filed a timely appeal to the United States Court of Appeals for the Ninth Circuit.

RADICA GAMES LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
(US dollars in thousands)

18. SEGMENT INFORMATION

The Company operates in one principal industry segment: the design, development, manufacture and distribution of a variety of electronic and mechanical handheld and tabletop games. Geographic financial information is as follows:

	Year ended October 31,		
	1996	1995	1994
Net sales:			
United States	\$ 34,079	\$ 48,763	\$ 62,507
PRC and Hong Kong	13,456	3,887	9,585
	<u>\$ 47,535</u>	<u>\$ 52,650</u>	<u>\$ 72,092</u>
Operating income/(loss) from continuing operations:			
United States	\$ 941	\$ (16,892)	\$ 5,025
PRC and Hong Kong	1,601	(4,867)	14,010
	<u>\$ 2,542</u>	<u>\$ (21,759)</u>	<u>\$ 19,035</u>
Identifiable assets:			
United States	\$ 17,412	\$ 20,526	\$ 35,021
PRC and Hong Kong	25,313	33,528	52,305
	<u>\$ 42,725</u>	<u>\$ 54,054</u>	<u>\$ 87,326</u>

A significant portion of PRC and Hong Kong net sales were export sales to the United States.

RADICA GAMES LIMITED
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS -- (Continued)
(U.S. dollars in thousands, except per share data)

19. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

	Quarter ended			
	Jan. 31	Apr. 30	Jul. 31	Oct. 31
<u>Fiscal 1996</u>				
Net sales	\$ 9,052	\$ 3,918	\$ 11,989	\$ 22,576
Gross profit	2,876	183	3,153	10,196
Net income/ (loss)	(727)	(978)	(1,045)	4,244
Net income/ (loss) per share	(0.03)	(0.05)	(0.05)	0.21
<u>Fiscal 1995</u>				
Net sales	\$ 17,483	\$ 7,358	\$ 12,662	\$ 15,147
Gross profit	7,769	3,136	4,311	2,115
Net income/ (loss)	1,254	(1,478)	(1,907)	(19,592)
Net income/ (loss) per share	0.05	(0.06)	(0.08)	(0.86)

Common Share Price

1996 Quarter

	High	Low
Fourth	1 3/4	3/4
Third	1 15/16	15/16
Second	2	1 1/4
First	2 1/2	1 1/8

1995 Quarter

Fourth	3	1 3/8
Third	3 3/4	2 1/2
Second	5	3
First	7	4 3/4

1994 Quarter

Fourth	7	4 3/4
Third	11 1/2	4 5/8

Prior to the Company's initial public offering of common shares, which commenced on May 13, 1994, there was no public market for the Company's ordinary shares. The initial offering price was \$11. On October 31, 1996, the closing price was \$1 1/8.

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all of the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

RADICA GAMES LIMITED

Date: December 23, 1996

/S/ David C.W. Howell
David C.W. Howell
Executive Vice President
Chief Financial Officer

EXHIBIT INDEX

- * 3.1 Memorandum of Association
- * 3.2 Bye-Laws
- * 3.3 Certificate of Incorporation on Change of Name
- * 4.1 Specimen Certificate for the Shares of Common Stock
- * 10.1 Processing Agreement, dated December 4, 1991, between Radica HK and foreign Economic Development Co. of Humen Town, Dongguan, relating to the Tai Ping Factory
- * 10.2 Processing Agreement, dated December 27, 1993, between Radica HK and Foreign Economic Development Co. of Humen Town, Dongguan
- * 10.3 [Reserved]
- * 10.4 Shareholders Agreement, dated January 12, 1994, among the Company and the shareholders parties thereto
- * 10.5 Amendment to Shareholders Agreement, dated as of February 16, 1994, among the Company and the shareholders party thereto.
- * 10.6 Form of Employment Agreement, between Radica Games Limited and Robert E. Davids
 - 10.6(a) April 1996 Amendment to such Employment Agreement.
- * 10.7 [Reserved]
- * 10.8 Employment Agreement, dated as of November 28, 1993, among Radica HK, Radica USA and Jon N. Bengtson
 - * 10.8(a) Form of Amendment to Employment Agreement among Radica Games Limited, Radica HK, Radica USA and Jon N. Bengtson.
 - 10.8(b) December 1995 Amendment to such Employment Agreement.
- * 10.9 1994 Stock Option Plan
- * 10.10 [Reserved]
- * 10.11 [Reserved]

RADICA GAMES LTD

20-P

SIC3944 NMS SEC# 0-23696

FOR 10/31/96

CARD 002REC 12/24/96 (c) Disclosure Info. Services, Inc. 309118 96170612 HQ

- *10.12 [Reserved]
- *10.13 [Reserved]
- *10.14 Form of Common Stock Purchase Agreement, for Radica USA, between Radica Games Limited and the Sellers named therein
- *10.15 Form of Common Stock Purchase Agreement, for Disc, Inc., between Radica Games Limited and the Sellers named therein
- @10.16 Cooperative Joint Venture Contract of D.G. Radica Games Manufacturing Co., Ltd., dated June 24, 1994
- 11.1 Statement re Computation of Per Share Earnings
- 21.1 List of subsidiaries
- 23.1 Consent of Deloitte Touche Tohmatsu
- + 23.2 Consent of Deloitte Touche Tohmatsu of change in accounting policy

* Incorporated by reference to Registration Statement on Form F-1, File No. 33-75794 filed by the Registrant.

@ Incorporated by reference to Form 20-F for the year ended 31st October 1994.

+ Incorporated by reference to Form 20-F for the year ended 31st October 1995.

Exhibit 10.6(a)

RADICA GAMES LIMITED

THE UNDERSIGNED, being all of the directors of the Company, HEREBY RESOLVE:

Robert Eugene Davids' Service Contract

THAT the service contract dated 15th April 1994 between Mr. Robert Eugene Davids, Chief Executive Officer of Radica Games Ltd, and Radica Games Ltd is extended on the same terms for a further period of two years expiring on 1st May 1998.

SIGNED by the following persons:

/s/ Robert Eugene Davids

Robert Eugene Davids

Date: 22 May 96

/s/ Lam Siu Wing

Lam Siu Wing

Date: May 22, 96

/s/ David C.W. Howell

David C.W. Howell

Date: 22 May 96

/s/ Jon N. Bengtson

Jon N. Bengtson

Date: 22 May 96

/s/ Robert Townsend

Robert Townsend

Date: May 21, 1996

/s/ Jim O'Toole

Jim O'Toole

Date: 28 May 1996

/s/ Mary Hansen

Mary Hansen

Date: 6-21-96

Exhibit 10.8 (b)

AMENDMENT NO. 2 TO EMPLOYMENT AGREEMENT

THIS AMENDMENT NO. 2 TO THE EMPLOYMENT AGREEMENT ("Amendment No. 2") is made as of December 31, 1995, by and among Radica Enterprises Ltd., dba Radica USA Ltd., a Nevada corporation ("Radica USA"), Radica Limited, a company incorporated under the laws of Hong Kong ("Radica Limited"), Radica Games Limited, a company incorporated under the laws of Bermuda ("Radica Games"), and Jon N. Bengtson (referred to hereinafter as "Employee").

W I T N E S S E T H

WHEREAS, Radica USA, Radica Limited and Employee entered into an Employment Agreement dated November 28, 1993 (as amended, the "Employment Agreement");

WHEREAS, the Employment Agreement was amended as of May 9, 1994 to provide, inter alia, for the inclusion of Radica Games as a party thereto;

WHEREAS, the signatories hereto desire to amend certain provisions of the Employment Agreement;

NOW, THEREFORE, in consideration of the premises and of the covenants and agreements contained herein, the parties hereto agree that the Employment Agreement is hereby amended as follows:

(1) Sections 2(a), (b) and (c) shall be deemed amended, to the extent necessary, to reflect the agreement that after this Amendment No. 2, the role of Employee will only be that of providing consulting services for the U.S. subsidiaries of Radica Games on a part-time basis, and that Employee will not devote his full time and attention to the business of Radica Games and its subsidiaries. Also, it is recognized that effective from January 4, 1996, Employee is Chairman of the Board of Directors of Radica Games, and has otherwise relinquished his officerships with Radica Games and its subsidiaries.

(2) With respect to Section 3(a) of the Employment Agreement, it is agreed that the Employment Agreement has been renewed for an additional two-year period with effect from December 13, 1995, and shall be renewed for an additional year as of each December 13 anniversary date unless a party to the Employment Agreement gives notice at least 90 days prior to such anniversary that the Employment Agreement shall not be renewed.

(3) With respect to Section 5 of the Employment Agreement which provides for compensation, the parties have agreed that after this Amendment No. 2, Employee's minimum salary shall be at the rate of \$1,500 per month, reflecting the lower level of services and lesser time commitment involved.

(4) With respect to Section 6 of the Employment Agreement, it is agreed that the unvested portion (i.e. 112,800 shares) of the non-qualified stock options that were granted to Employee exercisable at \$0.57 per share shall be cancelled, but this cancellation shall not affect the remaining 75,200 shares subject to stock options at an exercise price of \$0.57 per share, nor will this cancellation affect the stock options for 376,000 shares at an exercise price of \$8.53 per share. The effective date of the foregoing cancellation shall be December 31, 1995. Such remaining stock options for the benefit of Employee shall stay in effect and shall be treated like all other qualified or non-qualified options (depending upon their status), including the ability of Employee to accept the exchange option authorized by the Company's Board of Directors at a meeting held on January 4, 1996.

(5) It is agreed that Employee shall not have any break in service of his employment as a consequence of this Amendment No. 2, and the parties confirm that the term "date of this Agreement" as used in the Employment Agreement means December 13, 1993.

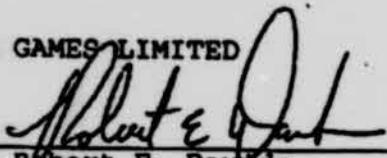
THIS AMENDMENT NO. 2 SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEVADA.

This Amendment No. 2 may be executed in any number of counterparts and by the different parties on separate counterparts and each such counterpart shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

Except as expressly provided in this Amendment No. 2, all of the terms, covenants, conditions, restrictions and other provisions contained in the Employment Agreement, as previously amended, shall remain in full force and effect.

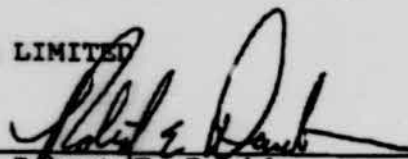
IN WITNESS WHEREOF, this Amendment No. 2 to the Employment Agreement has been duly executed and delivered by the individual party hereto and the duly authorized officers of the corporate parties hereto as of the date first hereinabove written.

RADICA GAMES LIMITED

By: 

Name: Robert E. Davids

RADICA LIMITED

By: 

Name: Robert E. Davids

RADICA USA LTD.

By: 

Name: Robert E. Davids

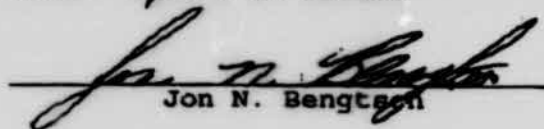

Jon N. Bengtson

Exhibit 11.1

Computation of Per Share Earnings
(in thousands, except for share data)

	Year Ended October 31.		
	1996	1995	1994
Primary Earnings			
Net income/(loss)	\$ 1,494	\$ (21,723)	\$ 17,160
Weighted average number of common shares outstanding (1)	21,439,452	22,780,000	21,308,000
Primary earnings/(loss) per common share	\$ 0.07	\$ (0.95)	\$ 0.81
Fully diluted (2)			
Net income/(loss)	\$ 1,494	\$ (21,723)	\$ 17,160
Weighted average number of common shares outstanding	21,439,452	22,780,000	21,308,000
Assuming conversion of share options under the employment agreement and Share Option Plan	120,264	155,685	230,706
Weighted average number of common shares outstanding after considering effects of share option	21,559,716	22,935,685	21,538,706
Earnings per average number of shares outstanding and common stock equivalents (3)	\$ 0.07	N/A	\$ 0.80

(1) Adjusted to reflect the 1994 1000-for-one stock split.

(2) This calculation is submitted in accordance with Regulation S-K Item 601(b)(ii) footnote 2 although not required by footnote 2 to paragraph 14 of APB No. 15 because it results in dilution of less than 3%.

(3) Fully diluted earnings per share is not applicable in 1995 as the Company made a loss.

Exhibit 21.1

Subsidiaries of Radica Games Limited

<u>Name of Subsidiary</u>	<u>State or Country in Which Organized</u>
United States	
Radica Enterprises Ltd (Operates as Radica USA Ltd)	Nevada
- Pub Games Inc.	Nevada
- Radica UK Ltd	UK
- Radica Canada Ltd	Canada
Disc., Inc.	Nevada
International	
Radica Limited	Hong Kong
- Radica China Ltd	British Virgin Islands
- Dongguan Radica Games Manufactory Co. Ltd	People's Republic of China
- Livermead Limited	Hong Kong
- RadMex S.A. de C.V.	Mexico
Radica Sales (HK) Ltd	Hong Kong

Exhibit 23.1

INDEPENDENT AUDITORS' CONSENT

**Board of Directors
Radica Games Limited**

We consent to the incorporation by reference in Registration Statement No. 33-86960 of Radica Games Limited on Form S-8 of our report dated December 16, 1996, appearing in this Annual Report on Form 20-F of Radica Games Limited for the year ended October 31, 1996.

/S/ Deloitte Touche Tohmatsu

HONG KONG

December 22, 1996
